DECEMBER 29 - JANUARY 5, 1995

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Far Eastern Economic REVIEW

NEW YEAR'S DOUBLE ISSUE

SSE-AS 20/8/97 for 31/3/97 P399 (B-1992)

SPECIAL PULLOUT SECTION

CUK-H05685-75-G-23512

REVIEW 200

ASIA'S LEADING COMPANIES

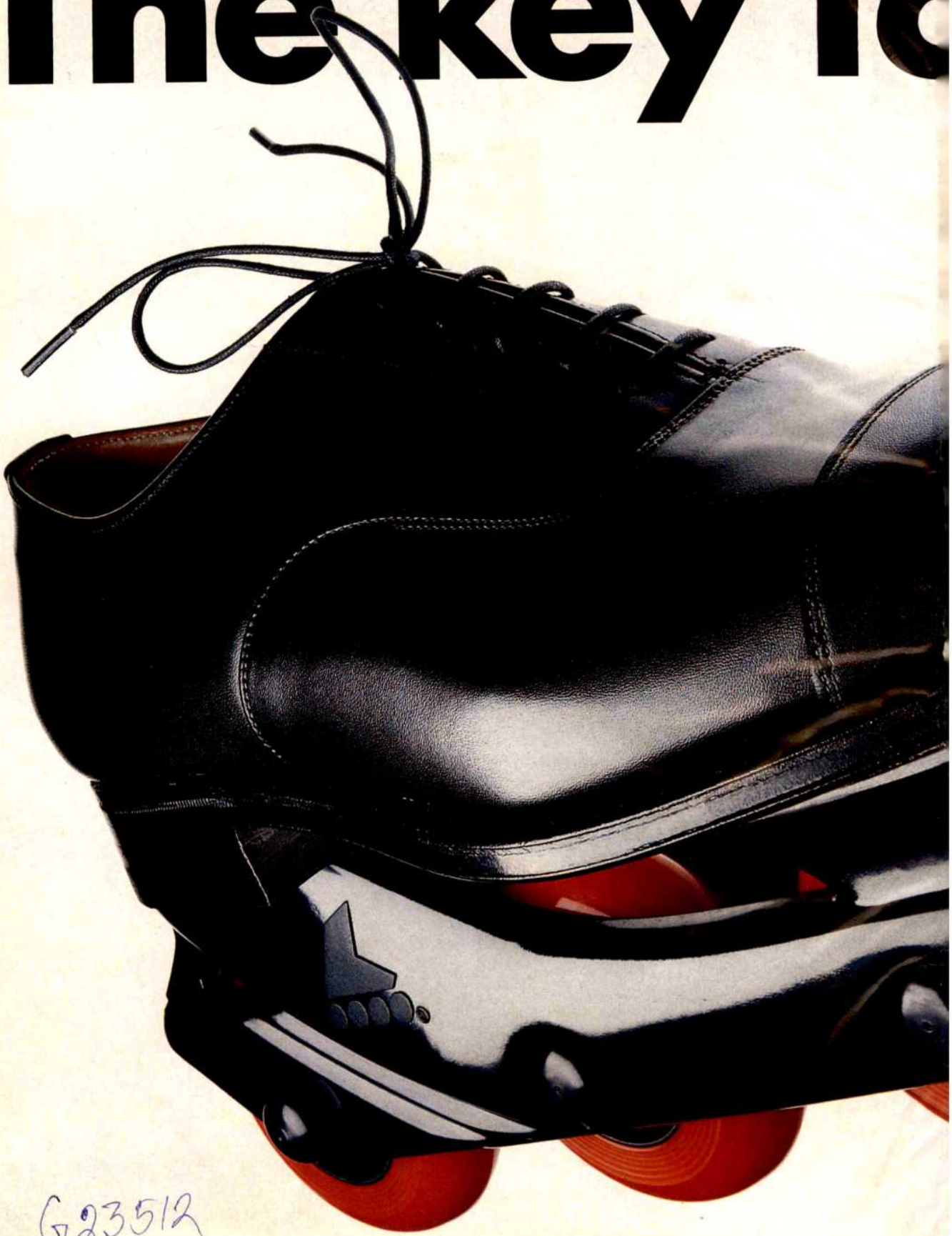
(74)

THE YEAR IN REVIEW

FAVOURITE BOOKS OF THE YEAR

ASIA AT PLAY

The key to



G23512

progress.

74

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LETTERS

All letters must include the writer's name and address and are subject to editing. Letters may be mailed to the Review, GPO Box 160, Hong Kong, or faxed to (852) 2503 1530.

Does Not Compute

With regard to your article on the Asia-Pacific Investment Co. [**Do Something**, Nov. 10], the firm's planned focus on hard-disk drives and cathode-ray tubes puts it into the computer business of today.

If, however, it really wants to reduce Taiwan's dependence on Japan for technology, the management needs to look at what new technologies the computer world will need five years from now — and then look into developing products that will support that world. Mobile and wireless computing applications, for example, are expanding and will have a profound impact on the way one uses computers. Figuring out how to support such developments would put Taiwan on the same technical-evolution plane as the Japanese.

CC YAO/REUTER

Taiwan: tomorrow's technologies?

I like to use the analogy of the Japanese venture into high-definition television. Theirs was a very nice analog system; its chief downfall was that it ignored the digital revolution. The result was that the Japanese developed a system that was obsolete the moment it was conceived, and now they find themselves trying to catch up to those who went digital first.

If Asia-Pacific Investment wants to become a leader, a little basic research into long-term, not-yet-completely-evolved technologies and their potential applications would go a long way towards positioning itself as a leader rather than a follower.

DAVID HOWE
Richard Saunders Technologies
Milford, Massachusetts

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Service First

With reference to Nury Vittachi's item [**No Good at Numbers**, TRAVELLERS' TALES, Oct. 13], we believe the State Bank of India has been unfairly treated and the readers left with a totally negative image of our services. The facts of Glenn Rogers' case are as follows:

- The remittance was required to be delivered at our Versova (Bombay) branch the very same day. It was explained to Rogers that it was not possible to do so under our remittance arrangement.

Remittances are *not* normally made to small, suburban branches directly, as they do not have telex facilities, and cables are physically delivered after 24 hours. Routing of remittances to India are normally by SWIFT/Telex through specified city branches. The Versova branch is *not* one of these branches and it would therefore have taken at least one day for a remittance to reach it.

- Rogers pleaded that his remittance was urgently and immediately required only at Versova, the very same day, to pay for a flat, as his old aunt handling his affairs could not travel to the nearest large branch, some two kilometres distant. He requested a special favour from our officials.
- In order to help Rogers, the bank offered to advise Versova by telephone, which we (or any other bank) would not do in the normal course of business. We explained to Rogers that we would have to verify the branch's telephone number, as very recently the old six-digit phone numbers had been replaced. Such was Rogers' urgency that he did not wish to wait until noon (9:30 a.m. Indian time) and offered to get the number from his aunt.
- The number Rogers gave the bank was not correct; we obtained the correct number by phoning our Bombay office, and the funds were transferred that day as he had requested.

We believe that an incident in which our bank had, in fact, gone out of its way to help Rogers has been misrepresented in your magazine.

S. CHINTAMANI
Chief Executive Officer
State Bank of India
Hong Kong

Singapore Responds

Christopher Lingle is not being prosecuted for anything controversial [**Singapore's Discretion**, EDITORIAL, Dec. 15] but for attacking the judiciaries of certain unnamed Asian countries. At the trial, the attorney-general will prove that Lingle's article in the *International Herald Tribune* refers to Singapore and that it constitutes contempt of court.

If Lingle did not in fact refer to the Singapore judiciary, or if he has any valid defence, then the charges against him will fail. But if Lingle is found to have impugned the Singapore judiciary without cause, this case will vindicate the reputation of the judiciary. Either way, far from hindering the efficient operation of the market, Lingle's trial will give the market valuable information about the integrity of the rule of law in Singapore.

SEE CHAK MUN
Commissioner of the Republic of Singapore
Hong Kong

Correction

If Only I Had Bought *[20 YEARS OF ASIAN GROWTH, Nov. 24] incorrectly said Shim Kun Sup bought Hyundai shares from the company's chairman, Chong Se Yong. The seller was Chung Ju Yung, chairman in 1992.*

Postal Information

Australia: Print Post Number PP 349181/00080. **U.K.:** Registered as a newspaper at the General Post Office. **U.S.A.:** The *Far Eastern Economic Review* (USPS 914-880) is published weekly, every Thursday, for US$185.00 per year by Review Publishing Company Limited. U.S. Mailing Agent — YellowStone International Corp., 87 Burlews Court, Hackensack, NJ 07601, Toll Free Tel: 1-800-451-3410. Second-class postage paid at Hackensack NJ and additional mailing offices. **U.S. POSTMASTER:** send all address changes to Far Eastern Economic Review c/o YellowStone International Corp., 2375 Pratt Blvd., Elk Grove Village, IL 60007-5937.

FarEasternEconomic REVIEW
EDITORIAL

Room at the Inn

Migrant labour — the unsung hero of Asia's development

You don't have to be Scrooge to find Asian airports pretty disconcerting at Christmastime. Flights are booked solid, long lines are everywhere, and it's only getting worse as the number of expatriates working here — Asian as well as Western — continues to climb.

Yet it's important to remember that the Dickensian scenes across Asia's airports reflect its growing affluence and ability to attract labour. In the past, the availability of cheap labour has been touted as the reason for the region's success, and here and there it still represents a powerful comparative advantage. But the irony is that this most populous part of the world now finds itself on the threshold of a tremendous labour shortage, especially skilled labour. As the accompanying chart demonstrates, the fastest-growing countries in Asia have been forced to look to foreigners to help keep growth going.

This, of course, is not unique to Asia. Nor are the ethnic tensions this mixing often engenders. In America this led to a controversial referendum on denying public benefits to illegal aliens, which passed even though such benefits are already illegal under United States law. In Asia the debate is much cleaner, if only because the lack of a welfare state means that those immigrating — legal and otherwise — cannot be accused of doing so because they don't want to work. To the contrary, they come because they want to improve their lot, and they stay because there are people who need the work done. What this means is that every one of them, from the U.S.-educated computer programmer to the lowliest Filipina maid, is helping to bake a bigger economic pie for all.

We would not minimise the tensions that the influx of foreigners, even a legal influx, can create for any society trying to preserve its way of life. But the demand clearly remains. Japan's Keidenran, for example, estimates that the labour shortage will reach 5 million by the turn of the century. Malaysia is now home to almost 1 million foreign workers. Tiny Hong Kong has more than 100,000 maids from Southeast Asia. And within China there exists a floating population of up to 150 million people, 10 million of whom are now an integral part of the Guangdong economy.

Clearly one of Asia's key challenges will be to accommodate this demand without renting the social fabric. In the past much energy has been wasted trying to determine whether labour or capital should have primacy. It should now be clear that they are in fact partners. Our hope is that 1995 will see the region come up with more creative ways to make it easier for business to bring in the people they need — with legal arrangements that preserve their dignity and prevent them from being forced underground. As we count our blessings this Christmas, we toast the special contributions of these migrant workers and offer the hope that they too may find room at the Asian inn. ■

Car and Driver

Samsung enters the auto market

South Korea's decision to allow the Samsung group to begin manufacturing cars reminds us of the fellow who every morning has to go next door and ask his neighbour to move the car blocking his driveway. He's grateful that his neighbour agrees, but he can't help thinking he shouldn't have to ask in the first place.

That's pretty much how we feel about this month's government ruling that Samsung could begin making cars. Now, if Samsung thinks it can make a car people will buy, we're all for letting it try. We just think that whether it fails or succeeds would best be decided by the free choice of consumers — at home and abroad — and not the mandarins down at the Ministry of Trade, Industry and Energy. In addition to the distorted economic signals this sends, the government's reluctance to divest itself of Korea, Inc. only fuels a destructive, zero-sum mentality. Take the just-ended strike by auto workers from Daewoo, Kia and Asia Motors, which cost an estimated Won 120 billion (US$151 million). To outsiders it might seem crazy for workers to strike their own company to protest a government decision to benefit another. But as our Mark Clifford noted in his recent book *Troubled Tiger*, "when big companies went bankrupt in Korea, it was not only because of economic problems." The striking auto workers would point out that the same could be said of companies that succeed.

Ministry officials would argue, of course, that they are simply trying to ensure that resources are channelled into their most productive areas. If we have learned anything from the troubles now plaguing Japan, however, it is that over the long run even the best administration will find itself outrun by the market. South Koreans will find it less painful to embrace this lesson themselves rather than wait, like Japan, until a less forgiving global economy forces it on them. ■

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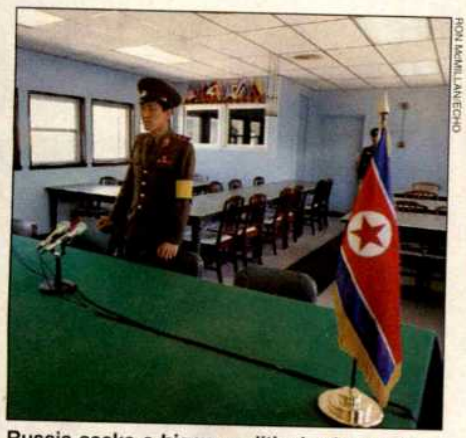

RON MAMMLLAN/ECHO

Russia seeks a bigger political role on the Korean peninsula. Page 14.

JOSE REINARES

A storm brews over Manila's Securities and Exchange Commission. Page 90.

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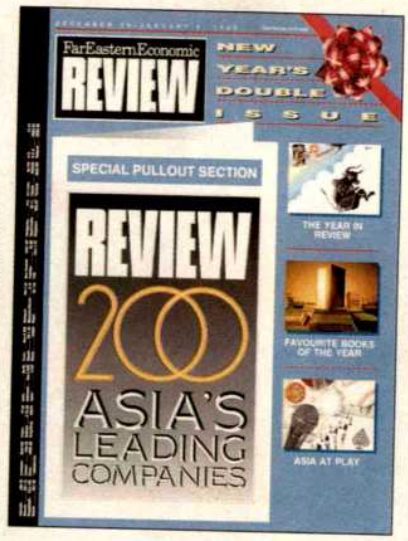

NEW YEAR'S ISSUE

In this New Year's double issue, the REVIEW presents its second annual survey of Asian corporate leadership, **REVIEW 200: Asia's Leading Companies**. The survey appears in a special 36-page pullout section. Page 37.

This issue also features:

Year in Review, by REVIEW Editor and Publisher L. Gordon Crovitz. Page 26.

Asia at Play, from entertainment to baseball, cricket and golf. Page 74.

Our Favourite Books, by a selection of prominent readers. Page 84.

Cover design by Ringo Chung,
photos by Will Crocker/The Image Bank & Alex So

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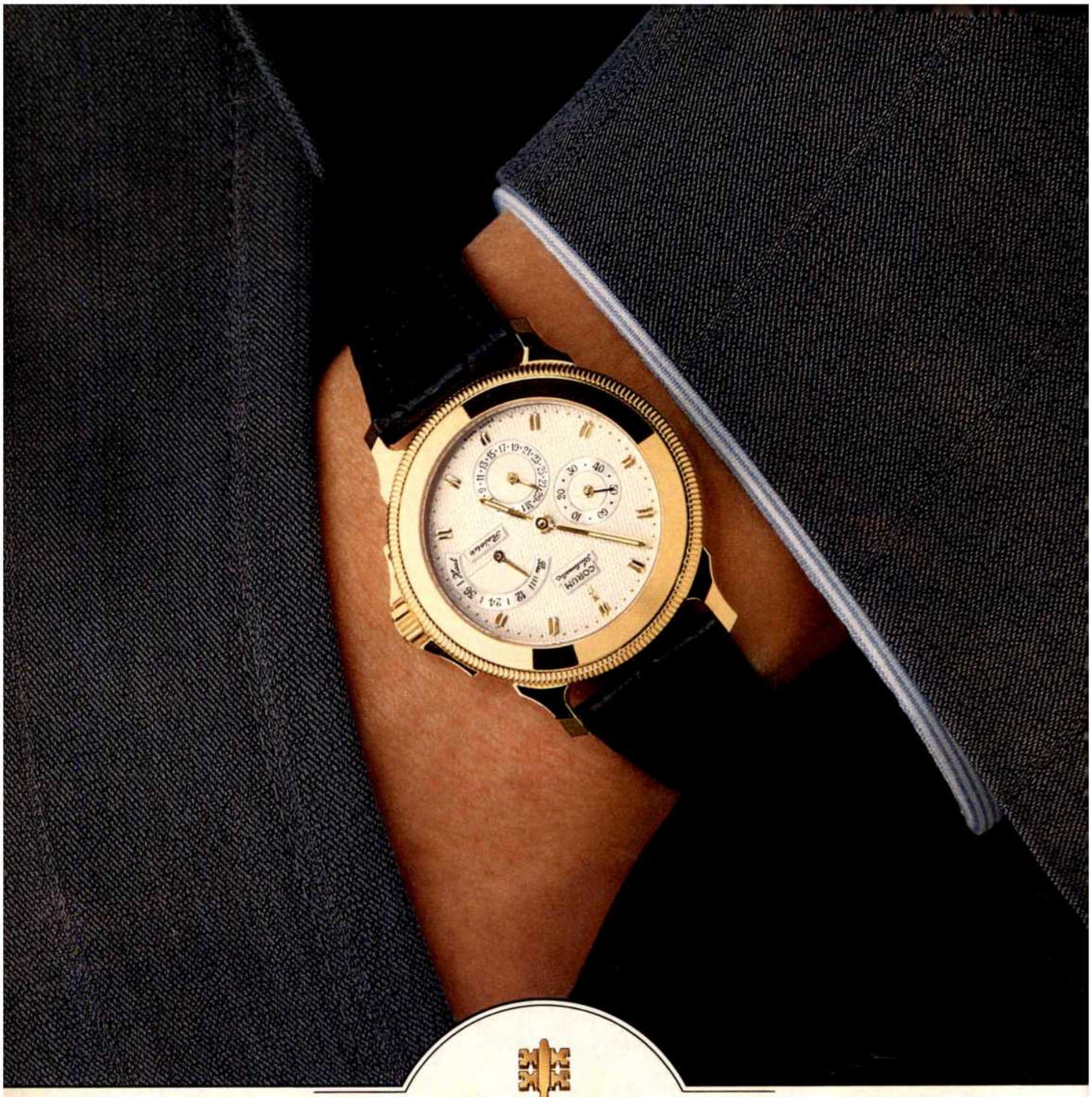
This is a double issue. The next REVIEW appears on January 5, 1995. Happy holidays.



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Far Eastern Economic Review

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Asia 1995 Yearbook
Published since 1959, the Review Yearbook is the indispensable guide to the major political and economic events of the year in Asia. The 1995 edition, US$49.95 in hardback, US$38 in paperback, includes coverage of 32 countries. Subscribers to the Review receive a 20% discount. Add US$8 for shipping outside of Hong Kong.

China in Transition
China, the fastest growing country in the world, has become the dynamo for the Asia-Pacific economic boom. This collection of more than 40 reports by Review editors and correspondents reveals a rapidly changing China and is an essential business update. Available for US$17.95. Subscribers to the Review receive a 20% discount. Add US$3.50 for shipping outside of Hong Kong.

Travellers' Tales
No one captures the absurdities of modern life in Asia like REVIEW columnist Nury Vittachi and his huge network of contributors — Review readers. Travellers' Tales is a collection of the best tales from the REVIEW's Travellers' Tales column. Available for US$16.50 (HK$129). Add US$5 for shipping outside Hong Kong. Review subscribers receive a 20% discount.

Vietnam Notebook
This compilation of articles by Murray Hiebert, the Review's Hanoi correspondent, sheds light on a country and an economy opening up to the world. This revised edition was updated after the U.S. lifted its embargo. Available for US$17.95. Subscribers receive a 20% discount. Add US$3.50 for shipping outside of Hong Kong.

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In Other Words

"People are negative, but not as negative as we are."

Marc Faber, Hong Kong fund manager and "King of the Bears," on his forecast that the Hang Seng Index will dive as low as 4,000 in the second half of 1995.

"The days of effective censorship and control of the media are numbered."

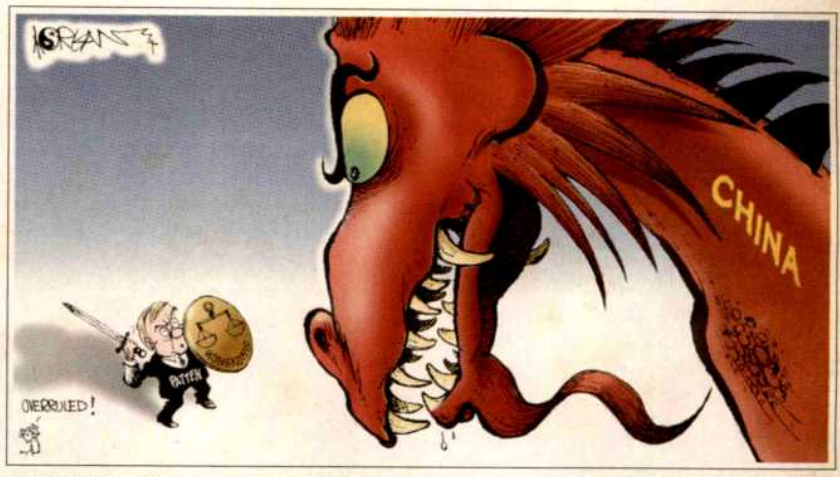
Malaysia's deputy prime minister, Datuk Seri Anwar Ibrahim, on his country's press-freedom debate.

"We regard them as members of our family."

Maak Suksri, a guru of elephant-catchers, of Thailand's 3,000 elephants.

"We provide presents, food and refreshments so people feel as though going to vote is a holiday."

Nadezhda Smirnova, election coordinator at a carpet factory in Ashgabat, Turkmenistan. More than 98% of the country's 2 million voters had turned out two hours before the polls closed.



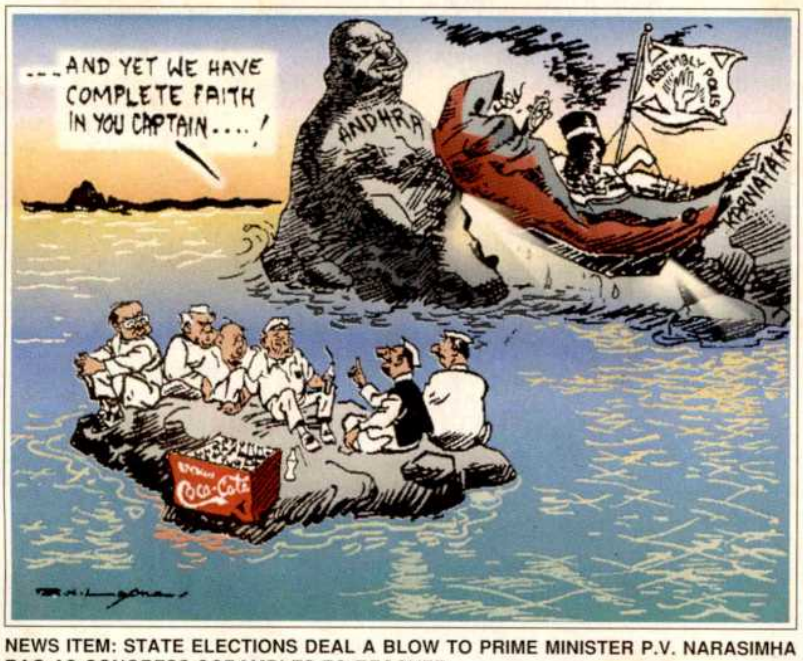
NEWS ITEM: CHINA SAYS IT MAY NOT HONOUR BRITISH APPOINTEES TO HONG KONG'S COURT OF FINAL APPEAL AFTER 1997.

"It was Friday lunchtime until Monday morning."

Moira Poor, a 69-year-old Auckland woman, on her three-day entrapment in a car-park lift. Pay-booth operators didn't believe her story when they asked why her ticket had expired.

"A gold mine."

A police official in Peshawar, Pakistan, on Pakistani officials' shopping spree in nearby Afghanistan for cheap Russian tanks.



NEWS ITEM: STATE ELECTIONS DEAL A BLOW TO PRIME MINISTER P.V. NARASIMHA RAO AS CONGRESS SCRAMBLES TO RECOVER.

R.K. Laxman/The Times of India

"We don't like corruption and welcome anything which would eradicate it, but I have no comment on whether we would 'welcome' this team."

A Hong Kong Government spokesman, on the impending visit of senior Chinese officials who plan to investigate corruption among mainland companies in the colony.

"Either they don't understand it and it's all happening on the sly, or they fully understand it and appreciate that it's a new world out there."

A Western executive, on Beijing's plans to connect 250,000 computers to the Internet, over which the government would have little control.

Please share quotes you see: REVIEW, GPO Box 160, Hong Kong, or fax (852) 2503 1530.

INTELLIGENCE

Three-Car Country

The Malaysian authorities have given the go-ahead for a made-in-Malaysia van. According to government sources, the national van will be manufactured by Perusahaan Otomobil Kedua, or Perodua. The Malaysian-Japanese consortium currently makes the country's second national car, the Perodua Kancil. Perodua's shareholders comprise UMW of Malaysia, Daihatsu and Mitsui of Japan and several Malaysian state agencies. The designs for the van have been completed and the company is currently building a prototype for inspection by Prime Minister Datuk Seri Mahathir Mohamad.

Allies or Enemies?

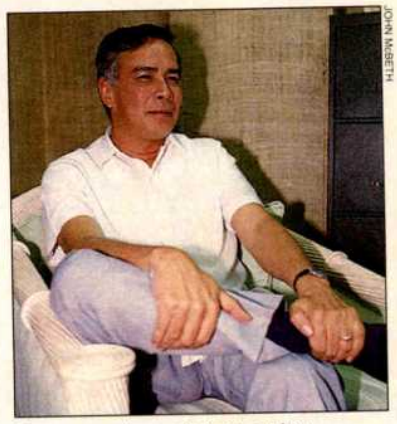
Indian authorities are sitting on a request by the United States Air Force for permission to fly a special transport aircraft into the northeastern states of Manipur and Nagaland. The flight would commemorate the 50th anniversary of American air support for the British offensive into Burma near the end of World War II. The U.S. Air Force proposes to fly a group of veterans aboard the transport to visit battle sites, quietly reminding present-day Indians about wartime defence ties. However, New Delhi officials are worried the visit could rub Indian nationalists the wrong way, even though British and Japanese veterans frequently visit old battlegrounds there. They point out that Manipur was also the area in which the Japanese-supported Indian National Army led by Subhas Chandra Bose fought its only battles on Indian soil against British rule.

Vietnam Adventures

Japanese motor manufacturers have been slow to commit themselves to making cars in China, but they appear to be moving more quickly into Vietnam — a country which has fewer than 400,000 four-wheeled vehicles to serve a population of more than 80 million. Mitsubishi Motors is a case in point. The company will start assembling minibuses at a plant near Ho Chi Minh City in January 1995. In addition, Mitsubishi plans to build a light truck assembly plant near Hanoi. Both plants will be joint ventures with the Malaysian Government, Mitsubishi's partner in the successful Malaysian Proton car project. Suzuki Motor, whose president, Osamu Suzuki, recently visited Vietnam, is also believed to be considering an automative assembly operation in Vietnam.

Mixed Signals

President Fidel Ramos has been irked by press reports that quote his economic adviser Emilio Osmena as saying that the Clark International Airport will be downgraded into a regional air terminal. Osmena also reportedly said the present Manila International Airport would remain the country's premier airport. Ramos ordered Osmena and Bases Conversion Authority Chairman Victor Lim to stop making press statements on the matter.


JOHN McBETH

Osmena gets a shut-up order.

Osmena is supporting the bid of Asia's Emerging Dragon, the Ramos-brokered corporation set up by six of the country's wealthiest Chinese Filipinos, to modernise the Manila International Airport. Lim on the other hand argues that the Clark facility should be developed into the country's premier airport. He points out that there is no way for the current Manila terminal and its site within the crowded metropolis to absorb the projected increases in passenger traffic.

Reformers Laid Off

In what could be the first move in China's looming succession struggle, two provincial governors, including one of the country's most prominent advocates of reform, appear to have been purged. Western intelligence sources confirmed that Hubei Governor Guan Guangfu has been sacked. They suspect that Xiao Yang, governor of Sichuan and old friend of the disgraced reformist Premier Zhao Zhiyang, may have met the same fate. A broadcast by the Sichuan provincial radio on December 15 carried a story of a visit by the governor to a chemical plant, but it identified Vice-Governor Gan Yuping as the governor. Xiao has earned the enmity of party conservatives in recent years by shutting down loss-making enterprises and laying off workers.

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Published weekly, every Thursday, in Hong Kong since 1946.

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A wholly-owned subsidiary of Dow Jones and Company Incorporated.

Offices: 25/F, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong.
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Telex: *General Business* 66452 REVCD HX, *Editorial* 75297 ECWEK HX.
Cable: REVIEW HONGKONG.

Printed by Dai Nippon Printing Co. (HK) Ltd., 220-243 Texaco Road, Tsuen Wan, N.T., Hong Kong.

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How did you drill in such deep water, Tom?

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An amazing feat, Tom...

Over fifteen hundred of them.

How did you do it?

I didn't. Talk to Julia, one of our geologists, she deserves the credit...after all, she did the hard bit...

Oh, but I thought...

I gather you found the field west of Shetland, Julia?

No, I didn't...

Oh, I was told...

...we all did. I worked on the seismic analysis. That's like X-raying the sea bed. It costs a fortune (or so they keep telling me) but it's worth it.

So you did the seismee... thingy in Mexico?

No, but what they learned there was passed on to me. Before that there wasn't any point in looking here - we'd never have got the oil out even if we'd found it. Do you follow?

Talk to Tom, one of our drillers... he did the hard bit.

But, he said...

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REGIONAL BRIEFING

THAILAND

Defence of Democracy

Thailand's Ministry of Defence published a white paper that includes a firm endorsement of the country's move towards democracy. The document, entitled "The Defence Of Thailand," is the first of its kind to be made public. It states that the military's highest priority is the defence of the monarchy and that it will intervene only to maintain stability on the orders of the government.

New Power Balance

King Bhumibol Adulyadej issued a royal command appointing 18 people to new cabinet posts in a reshuffle after the Chart Pattana party joined the coalition government led by the Democrat Party. Sanan Kachornprasart, a Democrat, became interior minister. Prachuab Chaiyasarn of Chart Pattana took over as head of the Ministry of Agriculture, which has been hit by allegations of impropriety in a land-reform scheme it supervises. Sunthorn Kongsompong, the general who led the 1991 coup against Prime Minister Chatichai Choonhavan, resigned from the Senate on December 19. Some politicians had accused Sunthorn and other members of the former military junta of plotting a return to power after they joined the opposition and the New Aspiration Party to vote down constitutional amendments favoured by the government.

NORTH KOREA

U.S. Chopper Downed

A United States army helicopter crashed after it strayed into North Korean territory on December 17, killing the pilot. Pyongyang said the aircraft was shot down after ignoring warnings. The U.S. Defence Department said the crew of the OH58 helicopter thought they were over South Korea. Negotiations have been taking place in Pyongyang and at North Korea's United Nations mission in New York to recover the body of the dead airman and his co-pilot who survived.

MANIT SRIWANICHPOOM/BUREAU BANGKOK

Their priority will be defending the Thai monarchy.

INDIA

Corruption Turmoil

The ruling Congress Party was thrown into turmoil as younger MPs pressed Prime Minister P.V. Narasimha Rao to sack "corrupt" ministers in the wake of the party's recent defeat in southern state elections. Eighteen junior ministers have given Rao their resignations to help him carry out a major cabinet reshuffle.

SOUTH KOREA

New Premier

Lee Hong Koo, former ambassador to London and deputy premier in charge of unification talks with North Korea, has been appointed prime minister in an extensive cabinet reshuffle expected to affect 15 out of 22 portfolios. Lee, a technocrat, is the fourth premier to head the cabinet since President Kim Young Sam's inauguration nearly two years ago. He has vowed to continue Kim's agenda of peace talks with the North and reform of the country's social and economic institutions.

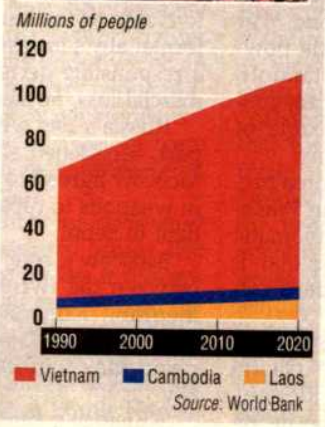
JAPAN

Military Belt-Tightening

Japan's defence budget will increase by 0.86% in fiscal 1995 from the 1994 level of ¥4.68 trillion (US$46.7 billion) — the lowest increase in 35 years. A Defence Agency spokesman said most of the increase would be absorbed by higher personnel costs. Procurement of front-line weaponry will be slashed by 6.5% to ¥825 billion.

Indicators

Population projections for Indochina through 2020



REVIEW GRAPHIC/SIMON WONG PHOTO: ANDY SOLOMAN

PHILIPPINES

Colonel Slain

The communist urban guerilla group Alex Boncayao Brigade claimed responsibility for the killing of police Col. Jose Pring, who had been accused by Vice-President Joseph Estrada in 1992 of involvement with kidnapping syndicates. A court last year cleared Pring of the charges.

CHINA

Dissidents Jailed

China jailed nine dissidents for terms ranging from three to 20 years in the most severe round of sentencing since the 1989 Beijing massacre. A court in the capital convicted the activists of "counter-revolutionary crimes" such as forming underground groups and printing political leaflets. Dissidents' relatives, claiming the decision was politically dictated, plan to appeal. The court dropped charges against five other dissidents.

BURMA

Government Offensive

Burmese forces attacked ethnic Karen rebels and dissident Burmese students at their bases along the Thai border. The government troops torched parts of the student headquarters at Dawngwin, on the Salween river. More than a thousand troops also closed in on Manerplaw, the Karen headquarters on the Moei river 60 kilometres south of Dawngwin.

FAR EASTERN ECONOMIC REVIEW

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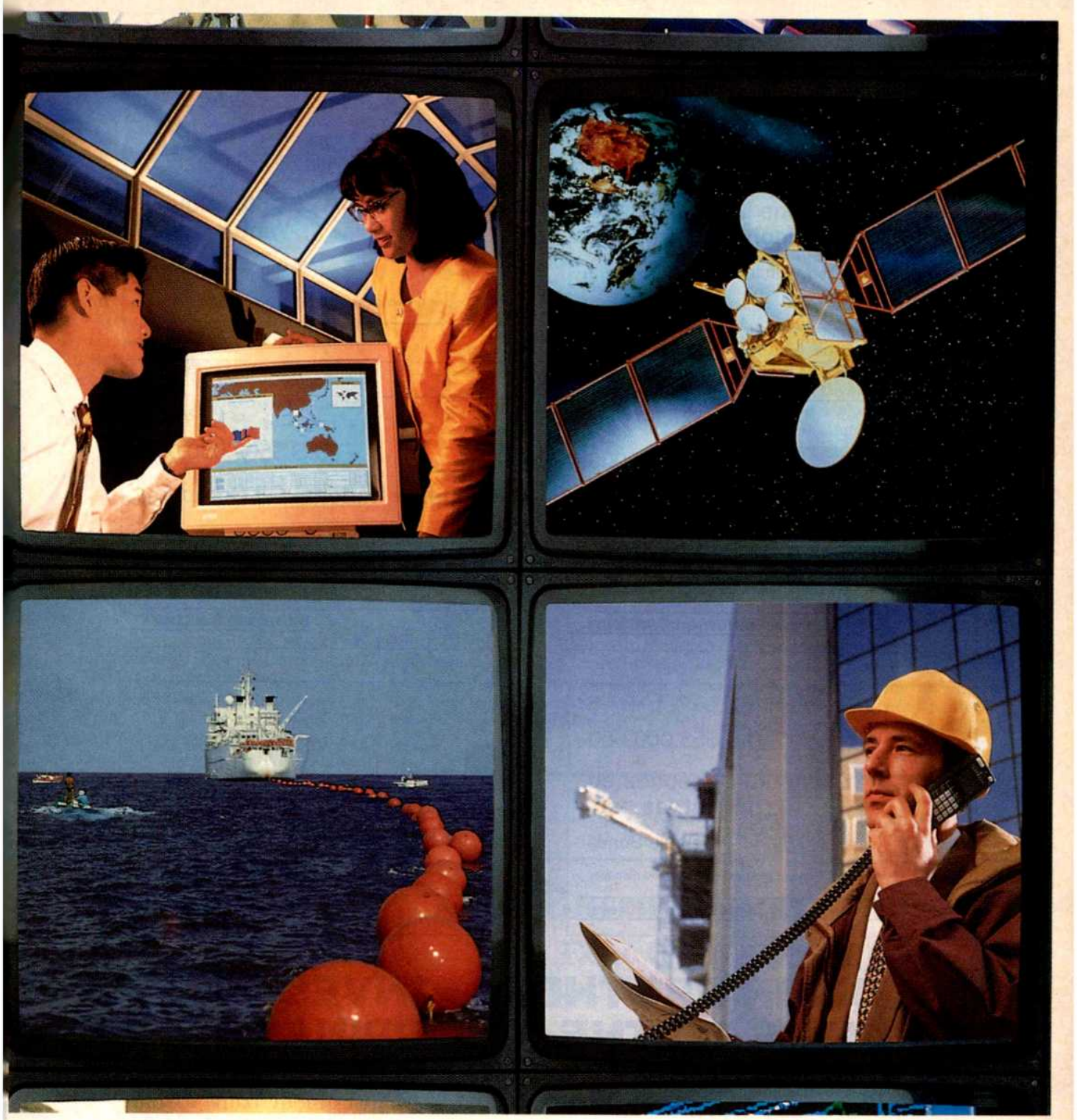

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Why a small sub-tropical island has become home for 500 multinationals.

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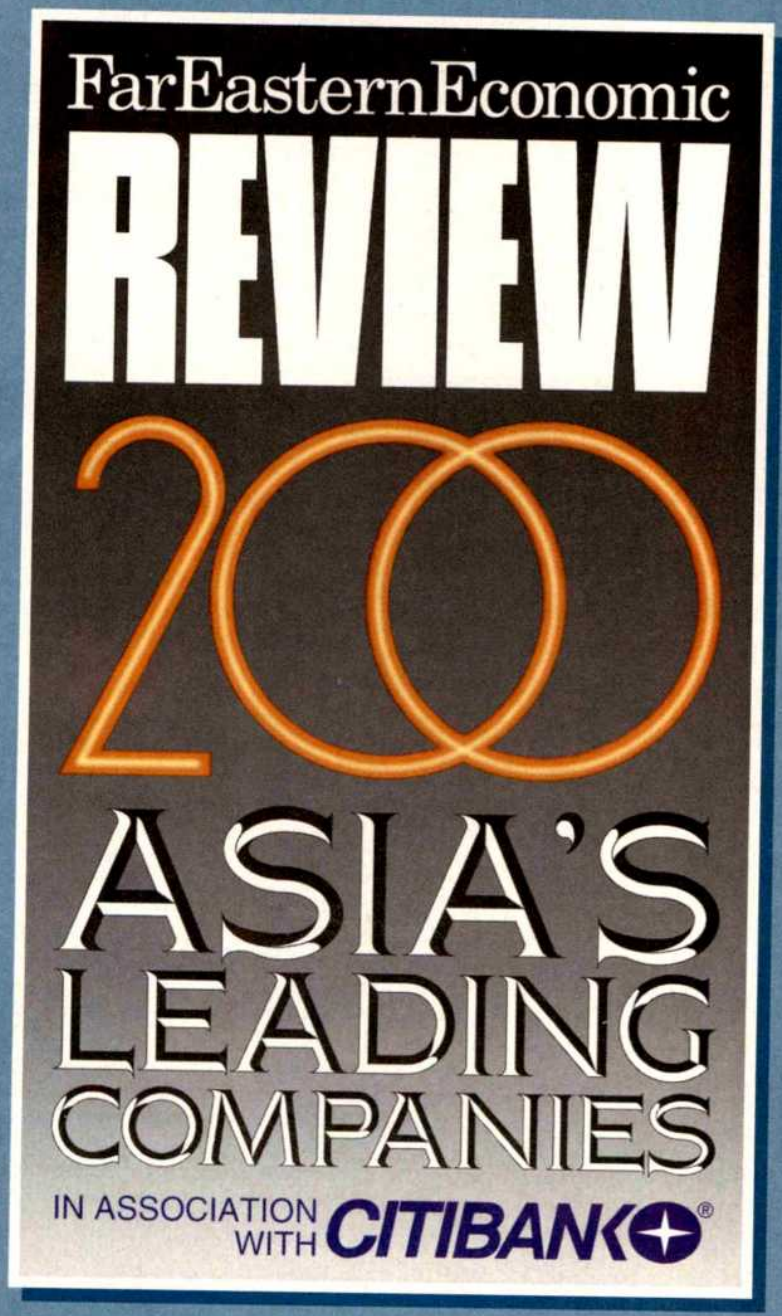

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Asia's Leading Companies

Introduction: The Second Annual REVIEW 200

By John M. Leger

To be a leader, a company cannot be a niche player that is known and well-regarded only by the few it serves. Instead, it must be recognised for its achievements and leadership qualities by a broad range of people.

That's our definition of corporate leadership. And that's exactly what you'll find in the following pages as we present Asia's most ambitious corporate survey: the second annual REVIEW 200: Asia's Leading Companies.

Plenty of surveys rank companies by revenues or profits. The REVIEW 200 goes much farther: It identifies the *qualities* that make today's leaders — and help predict tomorrow's: Quality of services and products. Innovativeness in responding to customer needs. Long-term management vision. Financial soundness. Companies that others try to emulate.

The REVIEW 200 comprises 110 companies based in Asia as well as 90 multinational firms from outside Asia that do business in the region. The Asian-based companies were ranked in their home countries, while the multinationals were ranked in all 11 countries in the survey.

More than 4,500 leading professionals throughout Asia participated in this year's survey, which was conducted in association with Citibank and administered by Survey Research Singapore (*see methodology on page 72*).

You might call 1994 the Year of Technology, judging from the results. **Motorola** and **Microsoft** moved into the top five spots in the multinational list, while **Philips Electronics**, **Compaq** and **Ericsson** joined the REVIEW 200 for the first time. **Hewlett-Packard** and **Intel** moved up the list, the latter by 27 places. Drops were recorded by **IBM**, **Apple Computer**, **Texas Instruments** and **Olivetti**.

Among Asian companies, outstanding performances were turned in by **Acer** and **Taiwan Semiconductor** in Taiwan, **Shinawatra Group** and **TelecomAsia** in Thailand and **Creative Technology** in Singapore.

Some other highlights:

- **Coca-Cola** maintained its position as the leading multinational company for the second consecutive year. But an extremely strong performance by No. 2 **Motorola** indicates the race was close. And Coke's main cola competitor, **PepsiCo**, soared in the rankings, moving up a significant 39 places, to No. 24. Watch out, Coca-Cola.
- Companies with strong consumer-product images excelled. Take a look at the list of multinational winners on page 41. Of the top 20, 19 make products or offer services that can be used at home. There's just one exception: You can't park a **Boeing** jet in your living room. But the company is certainly well-known to a wide range of travellers, all of them consumers.

Indeed, consumer-product companies can be found all over the REVIEW 200. Among multinationals, **Heineken** and **Unilever** entered the REVIEW 200 this year. **Colgate-Palmolive** became one of the top 25, while **Procter & Gamble** put in a strong showing, jumping 26 places to No. 35.

Meanwhile, consumer-product companies were strong in a number of individual countries. For instance, they dominated the Philippines list, with strong performances by **San Miguel**, **Jollibee Foods**, **ShoeMart** and **Purefoods**.

- Most financial-services companies moved up in the rankings. **Citibank**, **American Express**, **Chase Manhattan Bank**, **Merrill Lynch** and **Swiss Bank Corp.** improved their positions in the multinational rankings. And **J.P. Morgan** and **Morgan Stanley** moved into the REVIEW 200 this year.

Among the Asian companies, powerful newcomers this year included: **National Australia Bank** in Australia, **Bank Bali** and **Bank Niaga** in Indonesia, **Arab-Malaysian Merchant Bank** and **Rashid Hussain Bhd.** in Malaysia, **PCI Bank** in the Philippines and **Samsung Life Insurance** in South Korea. **Hongkong Bank** kept its position as the No. 1 company in Hong Kong.

- Non-Asian airlines generally lost altitude, but Asian carriers mostly held their own or improved. Among the multinationals, these airlines got lower rankings: **British Airways**, **Swissair**, **Lufthansa**, **KLM** and **United Airlines**. Two moved out of the REVIEW 200 altogether: **Northwest Airlines** and **Air France**. However, **SAS** moved up in the rankings.

Among the Asian carriers, **Singapore Airlines** maintained its ranking as the No. 1 company in Singapore. Not only that, but it was the highest-rated airline in the survey. In fact, almost all the Asian airlines in the REVIEW 200 got higher scores than the non-Asian carriers. Maybe non-Asian airlines could learn something from their Asian counterparts.

- Most car makers from outside the region got a lot of mileage out of this year's survey, accelerating up the rankings list. **Daimler-Benz**, **General Motors**, **Volvo** and **Ford** improved their positions, while **Chrysler** entered the REVIEW 200. Those with lower rankings were: **BMW**, **Rolls-Royce** and **Volkswagen**.
- Multinational oil companies turned in a mixed performance. **Royal Dutch/Shell** improved its ranking significantly. **British Petroleum** also moved up. But others dropped: **Esso/Exxon**, **Mobil** and **Caltex**.

For the first time this year, we asked respondents to answer some business leadership-related questions. We asked questions in two areas: the importance of the Master's of Business Administration and the difference in reputation between multinationals and local companies — and which would do better in the future.

The survey discovered that:

- Respondents valued work experience over the MBA by a staggering 3-to-

LEADERSHIP QUALITIES

Respondents ranked companies by these attributes

- **High quality of services or products**
- **Management has long-term vision**
- **Innovative in responding to customer needs**
- **Financial soundness**
- **Companies that others try to emulate**

1 margin (*see story on page 46*).

● Non-Asian multinationals are perceived to have higher-quality products or services than local companies, but the locals are considered more entrepreneurial.

Let's take a closer look at that last point:

A majority of respondents — 53% — felt that non-Asian multinationals produce higher-quality products and services (*see table*). Perhaps that's not too surprising. Many people think multinationals have more resources, skills and expertise, not to mention global experience.

But there's not too much reason for local companies to be discouraged by that finding. About 35% of respondents felt there wasn't any difference in the quality of products and services between multinationals and local companies. And 12% felt that local companies produced higher-quality products.

The multinationals scored best in Indonesia and Taiwan, where 74% of respondents said the multinationals produced higher-quality products and services than local companies.

The local companies did best among the Japanese and South Koreans — while still failing to snare a majority of votes. In Japan, 32% said local companies produced higher-quality products, while only 15% chose the non-Asian multinationals. But 53% said there wasn't any difference. In South Korea, 31% opted for the local companies, 48% the multinationals, and 20% said there wasn't any difference.

Again, that's perhaps not too surprising: Local companies in Japan and South Korea are global players, like **Sony** and **Mitsubishi** in Japan and **Samsung** and **Hyundai** in South Korea.

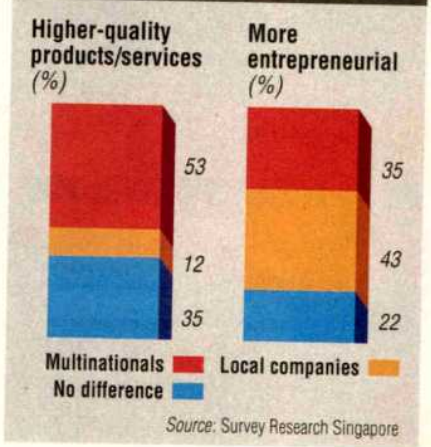
In keeping with the REVIEW 200's goal of trying to identify future leaders, the survey asked respondents to assess companies' entrepreneurial capabilities.

A plurality of respondents — 43% — said that local companies will be more entrepreneurial in the future, while 35% opted for the non-Asian multinationals. On entrepreneurship, the biggest fans of local companies were in Malaysia and the Philippines, where 59% of respondents said they expected local companies to be more entrepreneurial than the multinationals. By contrast, South Koreans considered multinationals more entrepreneurial, by a margin of 55% to 31%.

Conclusion: Currently, Asia's top managers think multinationals produce higher-quality products and services. But they're very optimistic about the future of local companies in the extremely important area of entrepreneurship.

This whole issue of multinationals vs. local companies raises a question: Why do we separate non-Asian multinationals from local companies in the survey? Aren't **Hongkong Bank**, **Sony**, **Singapore Airlines** and **San Miguel** "multinationals," too?

Multinationals vs. Local Companies



Source: Survey Research Singapore

Of course they are. The multinational character of those companies is easy to discern. But it's a lot more difficult with second- and third-tier companies in each country. Would it be fair to include in the multinational list a company that has operations in only one nation outside its home country? Would that company be a "multinational"? We don't think so.

There are other reasons why the local, Asian companies should be ranked separately from the non-Asian firms:

● Suppose there's a local, Asian-based company that is present in only one country and is very well regarded there. It garners a leadership ranking of 6 or 7 on a 7-point scale. And suppose a multinational from outside the region operates in the 11 countries of our survey. Say it winds up with a 5 on leadership. Does that mean then that the small local company is more of a leader than the multinational?

● If ranked by survey participants in all 11 countries, the local company would be grossly disadvantaged. It likely would fall below the top multinationals on almost all counts. Even worse, such a result would understate the company's contribution to its own country's economy.

● Suppose all the Asian companies with international operations were removed from the list of local companies in each country and were ranked together with the non-Asian multinationals. Something very bizarre would occur: second-and third-tier firms would end up as the "leading" companies of each country.

Therefore, non-Asian multinationals and Asian local companies are ranked separately.

Despite the differences between multinationals and local companies, they all share one important attribute: All the companies in the REVIEW 200 — whether Asian or non-Asian — are leaders in their industries.

All these companies are forward-looking organisations, setting the pace for other companies. They are constantly improving their services or products. They have managements that plan for the future, not just for the next fiscal year. They have the resources to meet competitive challenges and to take advantage of new opportunities. And they are companies that other firms want to emulate. In short, these are Asia's leading companies. ■

REVIEW 200 Changing Places

IN — These multinational companies entered the REVIEW 200 this year:

Rankings '94	('93)	
21	(N.A.)	Philips Electronics
41	(N.A.)	Heineken
68	(96)	Unilever
70	(121)	Compaq
82	(100)	Ericsson
85	(93)	Chrysler
88	(110)	J.P. Morgan
89	(123)	Morgan Stanley

OUT — These multinational companies dropped out of the REVIEW 200 this year:

Rankings '94	('93)	
91	(83)	Deutsche Bank
92	(77)	Price Waterhouse
98	(74)	Northwest Airlines
103	(86)	BASF
105	(79)	Singer
114	(72)	Air France
116	(90)	Avon
146	(53)	ICI

REVIEW 200 LOCAL COMPANIES

'94 ('93) 1 — Ranking scale — 7

AUSTRALIA

1	(2) Broken Hill Proprietary	5.94
2	(N.A.) National Australia Bank	5.72
3	(1) Woolworths	5.60
4	(6) Pacific Dunlop	5.30
5	(3) News Corp.	5.20
6	(4) Qantas Airways	5.19
7	(8) CRA	4.90
8	(11) CSR	4.82
9	(16) BTR Nylex	4.79
10	(9) Boral	4.78

INDONESIA

1	(1) Indosat	5.67
2	(2) Astra International	5.58
3	(3) Toyota Astra Motor	5.48
4	(7) Freeport Indonesia	5.25
5	(5) Bank Central Asia	5.09
6	(19) Indofood	5.07
7	(4) Gudang Garam	5.02
8	(N.A.) Bank Bali	4.98
9	(N.A.) Bank Niaga	4.96
10	(6) United Tractors	4.96

PHILIPPINES

1	(1) San Miguel	6.55
2	(4) Jollibee Foods	6.01
3	(2) Ayala Corp.	5.96
4	(3) ShoeMart	5.96
5	(6) ABS-CBN Broadcasting	5.93
6	(5) Bank of Philippine Islands	5.65
7	(7) Purefoods	5.24
8	(15) PCI Bank	5.11
9	(8) A. Soriano Corp.	5.1
10	(13) RFM	5.03

TAIWAN

1	(1) Formosa Plastics	6.15
2	(2) Evergreen Marine	6.00
3	(6) Acer	5.82
4	(3) President Enterprises	5.66
5	(9) EVA Airways	5.5
6	(4) China Steel	5.25
7	(17) Formosa Chemicals	5.09
8	(5) Taiwan Cement	5.04
9	(14) Far Eastern Textile	5.02
10	(N.A.) Taiwan Semiconductor	5.01

HONG KONG

1	(1) Hongkong Bank	6.30
2	(3) Hongkong Telecom	5.87
3	(5) Mass Transit Railway Corp.	5.84
4	(2) China Light & Power	5.83
5	(9) Cheung Kong	5.70
6	(8) Swire Pacific	5.66
7	(4) Cathay Pacific Airways	5.62
8	(7) Hutchison Whampoa	5.59
9	(15) Sun Hung Kai Properties	5.46
10	(6) Hang Seng Bank	5.43

JAPAN

1	(1) Sony	6.10
2	(2) Toyota Motor	6.07
3	(3) Nintendo	5.82
4	(6) Canon	5.77
5	(4) Honda Motor	5.64
6	(8) NEC	5.44
7	(14) Sharp	5.43
8	(7) Matsushita	5.42
9	(5) Mitsubishi Corp.	5.37
10	(11) Hitachi	5.28

SINGAPORE

1	(1) Singapore Airlines	6.52
2	(2) Singapore Telecom	5.93
3	(5) DBS	5.73
4	(9) United Overseas Bank	5.64
5	(6) OCBC	5.63
6	(18) Creative Technology	5.56
7	(4) Singapore Press Holdings	5.4
8	(13) Keppel Corp.	5.39
9	(8) Singapore MRT	5.26
10	(7) Fraser & Neave	5.22

THAILAND

1	(2) Charoen Pokphand Group	6.01
2	(1) Bangkok Bank	5.87
3	(N.A.) Siam Cement	5.79
4	(3) Shinawatra Group	5.71
5	(4) Siam Commercial Bank	5.48
6	(N.A.) TelecomAsia	5.39
7	(7) Petroleum Authority	5.33
8	(5) Dusit Thani	5.2
9	(9) Thai Airways International	5.08
10	(N.A.) Italian-Thai Development	5.08

INDIA

1	(3) ITC	6.45
2	(1) Hindustan Lever	6.34
3	(2) Larsen & Toubro	6.29
4	(7) Reliance Industries	6.25
5	(6) Tata Engineering	6.13
6	(4) Bajaj Auto	6.13
7	(N.A.) Titan Watches	6.07
8	(5) Tata Iron & Steel	5.99
9	(8) MRF Ltd./MRF Tyres	5.76
10	(9) Brooke Bond (I) Ltd.	5.56

MALAYSIA

1	(2) Genting	5.88
2	(4) Maybank	5.87
3	(1) Sime Darby	5.61
4	(5) Petronas	5.31
5	(8) Hong Leong Group	5.31
6	(7) Eon	5.17
7	(3) Proton	5.11
8	(12) AMMB	5.06
9	(6) Telekom Malaysia	4.89
10	(15) Rashid Hussain Bhd.	4.88

SOUTH KOREA

1	(2) Samsung Electronics	6.44
2	(1) Samsung Corp.	6.4
3	(3) Pohang Iron & Steel	6.36
4	(4) Hyundai Motor	6.21
5	(7) Hyundai Engineering	5.89
6	(5) Goldstar	5.82
7	(12) Samsung Life Insurance	5.78
8	(11) Korean Air Lines	5.69
9	(6) Hyundai Heavy Industries	5.68
10	(8) Yukong	5.62

FarEasternEconomic REVIEW 200 ASIA'S LEADING COMPANIES

REVIEW 200 MULTINATIONALS

'94 ('93)

1 — Ranking scale — 7

1	(1) Coca-Cola	6.07
2	(8) Motorola	5.91
3	(2) McDonald's	5.90
4	(17) Microsoft	5.71
5	(7) Nestlé	5.65

FarEasternEconomic REVIEW 200 ASIA'S LEADING COMPANIES

6	(11) Citibank	5.60
7	(3) Kodak	5.54
8	(6) Xerox	5.50
9	(4) Walt Disney	5.49
10	(9) Boeing	5.44
11	(18) General Electric	5.42
12	(10) AT&T	5.41
13	(15) Johnson & Johnson	5.41
14	(13) IBM	5.40
15	(5) Rolex	5.39
16	(12) BMW	5.37
17	(19) American Express	5.35
18	(49) Royal Dutch/Shell	5.32
19	(34) Daimler-Benz	5.27
20	(16) 3M	5.24
21	(N.A.) Philips Electronics	5.24
22	(23) Hewlett-Packard	5.21
23	(35) General Motors	5.20
24	(63) PepsiCo	5.20
25	(38) Colgate-Palmolive	5.20
26	(14) DHL	5.15
27	(22) Hilton International	5.12
28	(32) Nike	5.11
29	(20) Hyatt Hotels	5.10
30	(24) British Airways	5.09
31	(21) Gillette	5.07
32	(36) Volvo	5.01
33	(27) Du Pont	5.00
34	(25) Apple Computer	5.00
35	(61) Procter & Gamble	4.99
36	(30) Goodyear	4.97
37	(29) Esso/Exxon	4.94
38	(65) Intel	4.93
39	(28) Mobil Oil	4.93
40	(26) Rolls-Royce Motor	4.89
41	(N.A.) Heineken	4.89
42	(47) Ford Motor	4.88
43	(46) British Petroleum	4.85
44	(45) McDonnell Douglas	4.84
45	(39) Swissair	4.82
46	(43) Lufthansa	4.81
47	(59) Warner Brothers	4.79
48	(37) Caltex	4.78
49	(50) Chase Manhattan Bank	4.76
50	(31) Adidas	4.74
51	(41) Bank of America	4.72
52	(40) Bayer	4.71
53	(48) KLM Royal Dutch Airlines	4.71
54	(44) Volkswagen	4.69
55	(67) Levi Strauss	4.68
56	(52) United Airlines	4.66
57	(68) Benetton	4.65
58	(33) Dunhill	4.62
59	(42) Holiday Inn	4.62
60	(56) Texas Instruments	4.62
61	(73) Ciba-Geigy	4.61
62	(60) Carlsberg	4.59
63	(70) Federal Express	4.59
64	(80) Merrill Lynch	4.58
65	(76) United Parcel Service	4.57
66	(51) Dunlop	4.54
67	(57) Michelin	4.51
68	(96) Unilever	4.50
69	(85) Airbus Industrie	4.49
70	(121) Compaq	4.47
71	(54) Hertz	4.47
72	(71) Westinghouse Electric	4.46
73	(81) Guinness	4.46
74	(82) Otis Elevator	4.44
75	(55) Caterpillar	4.42
76	(66) Bosch	4.42
77	(62) Philip Morris	4.42
78	(58) Standard Chartered Bank	4.40
79	(78) ITT	4.39
80	(87) Dow Chemical	4.38
81	(84) Scandinavian Airlines System	4.37
82	(100) Ericsson	4.37
83	(64) Olivetti	4.35
84	(75) Toys 'R' Us	4.35
85	(93) Chrysler	4.33
86	(88) Swiss Bank Corp.	4.32
87	(69) Avis	4.32
88	(110) J.P. Morgan	4.30
89	(123) Morgan Stanley	4.28
90	(89) Hoechst	4.28

Note: *Rankings have been rounded off.*

Key Highlights

1. Coca-Cola

Coca-Cola once again topped the list of Asia's leading multinational companies. A staggering 76% of respondents gave Coke a leadership score of 6 or 7 on a 7-point scale. Overall, the company's leadership score moved up slightly, to 6.07 from 5.99 a year earlier.

Coke's best performance came in Hong Kong, where 86% of respondents gave it a 6 or 7 on leadership. Its next strongest countries were South Korea (84%) and Japan (80%). Coke did worst — if you can even use such a term to describe the No. 1 company — in Singapore. There, 62% of respondents gave the company a 6 or 7 on leadership.

It did somewhat better among women than men and got its highest ratings from respondents aged 34 and below.

Coke's performance on the five key leadership attributes actually dropped. Particularly noteworthy was the 10-point decline in its ranking on the quality of its products, to No. 24 from No. 14 in 1993.

While Coke maintained its overall leadership ranking, its cola competitor, PepsiCo, moved up smartly, zooming to the No. 24 spot from No. 63 a year earlier. In addition, PepsiCo improved its standing in four of the five leadership attributes. It also showed a sharp increase in awareness: 99% of respondents said they were familiar with PepsiCo, compared with 75% in 1993.

Clearly, the gap between the two cola giants is narrowing. And there's one other worrying sign for Coca-Cola in maintaining its No. 1 leadership position: Companies like Motorola and Microsoft are emerging strongly as leaders in their industries, so Coke could find its top position under threat in the next REVIEW 200 survey.

1 Coca-Cola

Attribute	Ranking '94	('93)
High-quality services/products	24	(14)
Innovative in responding to customer needs	11	(8)
Management has long-term vision	4	(1)
Financial soundness	10	(1)
Company others try to emulate	2	(1)

2. Motorola

Motorola excelled in this year's REVIEW 200 ranking, with a strong improvement in its leadership position to No. 2 from No. 8 a year earlier. In addition, its leadership score jumped to 5.91 from 5.37 on a 7-point scale.

All survey participants said they were aware of the telecommunications giant, up from 91% in the previous year's survey. Evidently, Motorola has raised its public profile; it improved its position in four of the five leadership categories.

Yet the perception of Motorola differs among the 11 countries' survey respondents. On average, 71% rated Motorola very highly on leadership. But an impressive 91% of Taiwanese and 84% of South Korean respondents rated the company highly on leadership, while only about one-half of Australians did.

Motorola performed consistently well among respondents from various industries. That's a positive sign because it means that its performance isn't recognised only by respondents working in the same industry.

3. McDonald's

McDonald's slipped one notch in the overall-leadership ranking. The competition for the No. 2 spot was intense: McDonald's leadership score of 5.90 on a 7-point scale was just under Motorola's 5.91.

Nonetheless, McDonald's took the No. 1 position for innovativeness in responding to customers and as a company that others try to emulate.

Indeed, McDonald's performed well on leadership all over the Asia-Pacific region. On average, an impressive 69% gave the company a 6 or 7 on leader-

2 Motorola

Attribute	Ranking '94	('93)
High-quality services/products	6	(9)
Innovative in responding to customer needs	7	(10)
Management has long-term vision	2	(8)
Financial soundness	35	(22)
Company others try to emulate	5	(12)

3 McDonald's

Attribute	Ranking '94	('93)
High-quality services/products	35	(18)
Innovative in responding to customer needs	1	(1)
Management has long-term vision	5	(2)
Financial soundness	20	(8)
Company others try to emulate	1	(2)

4 Microsoft

Attribute	Ranking '94	('93)
High-quality services/products	12	(28)
Innovative in responding to customer needs	3	(7)
Management has long-term vision	1	(3)
Financial soundness	26	(21)
Company others try to emulate	3	(4)

ship, with the best scores coming from Taiwanese and Australians; 83% in each country associated McDonald's strongly with leadership, while 79% of Hong Kong residents did.

In an interesting development, McDonald's success didn't lie only with young consumers. McDonald's was perceived positively by all age groups and between men and women. As Survey Research Singapore notes, "This seems to be a strong indication of McDonald's mass-market appeal."

Nonetheless, there were a few clouds in McDonald's otherwise sunny performance. McDonald's skidded in the ranking for high-quality products, to No. 35 from No. 18, and it dropped slightly in the rankings for long-term vision and financial soundness. The latter is not surprising: Financial institutions such as banks dominated the top 20 list for financial soundness.

4. Microsoft

This computer-software giant turned in an impressive performance, soaring to the No. 4 position for overall leadership from No. 17 in 1993. Its leadership score jumped to 5.71 from 5.04, and its awareness level hit 96%, up from the year-earlier 79%.

Microsoft improved its rankings in practically all leadership categories. It garnered the No. 1 position for having a long-term vision and took the No. 3 spots for innovativeness in responding to customers and for being a company that others try to emulate.

About 68% of respondents thought Microsoft deserved a score of 6 or 7 on leadership. Microsoft was rated particularly well on leadership in Taiwan, where 83% of the respondents associated the company strongly with leadership, South Korea (79%), Japan (74%), Hong Kong (73%) and Australia (71%). Curiously, Microsoft was not as well rated by Malaysians (54%) and Filipinos (59%).

Microsoft received its best scores from respondents who are aged 44 and below. Perhaps that indicates that younger people have had more exposure to information technology — and thus to Microsoft.

5. Nestlé

The Swiss food company showed a slight improvement in overall leadership, moving up to the No. 5 position in 1994 from No. 7 a year earlier. Moreover, the company's leadership score improved to 5.65 from 5.39.

Nestlé's rankings on key leadership qualities didn't change significantly. It achieved its best score on the quality of its products, rising to the No. 7 position from No. 8 in 1993. However, it did show a slight deterioration in other areas.

On average, about 62% of REVIEW 200 survey respondents said Nestlé scored very well on leadership, awarding it a 6 or 7 on a scale of 1 to 7. Nestlé scored best in the Philippines, where 79% of respondents associated the company strongly with leadership. Its worst showing was in Hong Kong, where only 47% gave it top marks.

The survey found that men and women equally gave Nestlé high rankings on leadership. There were also no significant differences among age groups. That's not too surprising for a major food-products company with mass-market appeal.

6. Citibank

This banking giant seems to be doing a lot of things right in Asia, judging by the survey results. Citibank shot up to the No. 6 position for overall leadership from No. 11 in 1993. Its leadership score also increased significantly, to 5.60 from 5.28 on a scale of 1 to 7.

Citibank topped the list of 21 multinational banks that were rated in the REVIEW 200 survey. Its nearest competitor was Chase Manhattan, which ranked No. 49.

The bank's strongest ratings came in India, where an impressive 76% of respondents gave it a 6 or 7 on leadership. Its worst performance was in Australia; 49% of respondents thought Citibank merited a 6 or 7 on leadership.

Citibank improved its position on a number of the individual leadership attributes. It showed significant improvements as a company with a long-term vision and as one that others try to emulate.

Nonetheless, Citibank's rankings on the quality of its services declined, to No. 67 from No. 50. Even so, Citibank still ranked far ahead of other commercial banks in that category. Its nearest competitor, J.P. Morgan, trailed far behind at No. 119.

7. Kodak

The film company's ranking on overall leadership slipped to No. 7 from No. 3 a year earlier. But its leadership score rose slightly, to 5.54 from 5.48.

Kodak improved its ranking on the

5 Nestlé

Attribute	Ranking '94	('93)
High-quality services/products	7	(8)
Innovative in responding to customer needs	21	(20)
Management has long-term vision	22	(16)
Financial soundness	22	(16)
Company others try to emulate	17	(13)

6 Citibank

Attribute	Ranking '94	('93)
High-quality services/products	67	(50)
Innovative in responding to customer needs	5	(5)
Management has long-term vision	10	(14)
Financial soundness	3	(2)
Company others try to emulate	8	(20)

7 Kodak

Attribute	Ranking '94	('93)
High-quality services/products	2	(3)
Innovative in responding to customer needs	31	(12)
Management has long-term vision	36	(32)
Financial soundness	63	(38)
Company others try to emulate	15	(17)

quality of its products and moved up slightly as a company that others try to emulate. But it sustained a severe drop in the ranking on innovativeness and financial soundness. It skidded 19 places on innovativeness and 25 places on financial soundness.

The survey found that Kodak's image as a leader was strongest among Taiwanese respondents. As many as 80% of Taiwanese said Kodak scored very well on leadership (6 or 7 on a 7-point scale), compared with 58% of all respondents.

By contrast, Indonesian and Japanese survey participants tended to rate Kodak lower on leadership than other countries' respondents. Only 44% of Indonesians and 46% of Japanese respondents said Kodak ranked very well on leadership.

8. Xerox

Xerox's overall leadership dropped slightly in this year's survey. It fell to the No. 8 position from No. 6 in 1993.

The company showed a decline in its rankings on all five leadership qualities, with especially steep declines in financial soundness and as a company that others try to emulate.

On average, about 59% of all respondents ranked Xerox highly on leadership, giving the company a score of 6 or 7 on a 7-point scale. It scored better in India (77%) and Indonesia (67%) than in Australia (49%) and Japan (51%).

In addition, the survey found that Xerox's image as a leader was not as strong among professionals as among other occupational groups.

Thus, according to Survey Research Singapore's analysis, there's room for improvement on the five leadership qualities. Otherwise, Xerox may lose its current position to other, stronger companies.

9. Walt Disney

The entertainment company's overall-leadership ranking fell to No. 9 from No. 4 in the previous year's survey. It also showed deterioration in a number of the five leadership attributes. Survey Research Singapore found that Disney scored less favourably among:

- Respondents from Australia, Hong Kong, Malaysia, Singapore and South Korea,
- Professionals,
- Men.

While Disney's rankings dropped in some areas, it did manage to hold on to its No. 4 position in innovativeness in responding to customer needs. Indeed, the percentage of respondents associating Disney with that leadership quality rose, to 52% from the year-earlier 47%. Survey Research Singapore said that represented a "significant" improvement.

10. Boeing

The world's largest aircraft maker showed a slight drop in overall leadership, falling to No. 10 from No. 9. It also showed small declines in rankings in three categories (product quality, innovativeness and financial soundness).

Boeing's best ratings on overall leadership came in India and Japan, where more than 70% of respondents said the company scored very well on leadership. Its lowest score was in the Philippines, where only 46% ranked the company 6 or 7 on a 7-point scale.

The company also showed some weakness among women and among men aged 34 and below.

Despite these areas of weaknesses, Boeing can still boast improved rankings in two key areas: long-term vision (moving up to No. 3 from No. 6) and company that others try to emulate (rising to No. 9 from No. 11).

Survey Research Singapore's conclusion: "While Boeing has maintained most of its leadership scores, it is clear that this is not enough to excel, or to improve its rankings, particularly when 'new,' strong leaders are emerging."

11. General Electric

The American electrical giant improved its overall-leadership ranking, moving up to the No. 11 position from the year-earlier No. 18. In addition, its leadership score advanced significantly, rising to 5.42 from 5.04.

Increased awareness of GE may have contributed to its improved leadership position. In this year's survey, 98% of respondents said they were aware of the company, up from 90% a year before.

While GE improved its overall-leadership ranking, it showed a sharp drop in its ranking for innovativeness in responding to customer needs, falling 28 notches to No. 69. Survey Research Singapore said that GE may need to improve in this area to further enhance its overall-leadership position.

About 54% of all respondents said GE rated very well on leadership. The company did best among Taiwanese,

8 Xerox

XEROX

Attribute	Ranking '94	Ranking ('93)
High-quality services/products	10	(5)
Innovative in responding to customer needs	22	(13)
Management has long-term vision	18	(12)
Financial soundness	60	(27)
Company others try to emulate	19	(6)

9 Walt Disney

Attribute	Ranking '94	Ranking ('93)
High-quality services/products	27	(26)
Innovative in responding to customer needs	4	(4)
Management has long-term vision	6	(4)
Financial soundness	40	(19)
Company others try to emulate	6	(3)

10 Boeing

BOEING

Attribute	Ranking '94	Ranking ('93)
High-quality services/products	14	(10)
Innovative in responding to customer needs	43	(31)
Management has long-term vision	3	(6)
Financial soundness	39	(34)
Company others try to emulate	9	(11)

South Koreans, Indonesians and Indians, with 65-68% of respondents in those countries giving GE top marks for leadership. But only about 40% of Australians and Singaporeans gave the company a 6 or 7 on a 7-point scale. This could imply that GE doesn't have a strong presence in Australia and Singapore.

Across age groups, older respondents appeared to have a more favourable impression of GE. Likewise, that was the case with respondents working in the manufacturing sector, where 62% scored GE highly on leadership.

15. Rolex

Rolex's leadership rank dropped 10 notches to No. 15. Nonetheless, its leadership score remained constant at 5.39 on a 7-point scale and it continued to rank first in having high-quality products.

The company showed a slippage in leadership in a number of key areas, most notably in innovativeness in responding to customer needs. In that category, its ranking skidded to No. 142 from No. 64 a year earlier.

The scores for Rolex were also pulled down by lower leadership scores among respondents who are:

- Australians, Indonesians, Japanese,
- Upper management and professionals,
- Aged 35 and above.

Overall, 55% of respondents gave Rolex a 6 or 7 on leadership. The company's best scores came in Singapore, India and Thailand, where 62-63% of respondents said the company scored very well on leadership.

"While Rolex's strength lies in its perceived ability to provide high-quality watches and services, it appears to have an uphill task if it wants to better its leadership ranking next year," said Survey Research Singapore.

11 General Electric

Attribute	Ranking '94	('93)
High-quality services/products	30	(33)
Innovative in responding to customer needs	69	(41)
Management has long-term vision	9	(10)
Financial soundness	23	(17)
Company others try to emulate	23	(43)

18. Royal Dutch/Shell

Among the top 20 winners, the Anglo-Dutch oil giant scored the most significant jump in its leadership ranking, soaring 31 notches to No. 18.

The survey found a sharp rise in awareness of the company; 96% of respondents said they were aware of Royal Dutch/Shell, up from 75% a year before. The company showed improvement in four of the five leadership categories. It especially excelled in long-term vision, moving up to the No. 7 spot from No. 15. One area of weakness: Its ranking for innovativeness in responding to customers dropped to No. 117 from No. 94.

On average, about 53% of respondents rated Royal Dutch/Shell at 6 or 7 on leadership. And males and older respondents tended to give the company higher ratings than females and younger respondents. Its best showing came in Malaysia (68%) and Singapore (62%). Its lowest scores were in Hong Kong (45%) and Indonesia (46%).

19. Daimler-Benz

The German auto, aerospace and electronics company improved its overall-leadership ranking this year, rising to No. 19 from No. 34 a year earlier. The survey recorded a sharp increase in awareness of Daimler-Benz; 94% of respondents said they knew about the company, up from 77% a year before.

The company showed a marked improvement in its ranking for high-quality products, grabbing the No. 4 position after being No. 11 a year earlier.

Despite these positive factors, Daimler-Benz did show some slippage in a number of leadership categories. For instance, it dropped to No. 60 from No. 45 in being innovative in responding to customer needs.

Across countries, an average of about 55% of all respondents gave Daimler-Benz a 6 or 7 on leadership. Taiwanese (67%), Thais (67%) and Indians (65%) gave Daimler-Benz the highest scores. The company scored lowest among Filipinos and Singaporeans (39-41%).

Survey Research Singapore said Daimler-Benz probably would need to improve its scores in the five leadership attributes to maintain its overall-leadership ranking. ■

15 Rolex

Attribute	Ranking '94	('93)
High-quality services/products	1	(1)
Innovative in responding to customer needs	142	(64)
Management has long-term vision	120	(68)
Financial soundness	52	(23)
Company others try to emulate	22	(10)

18 Royal Dutch/Shell

Attribute	Ranking '94	('93)
High-quality services/products	63	(70)
Innovative in responding to customer needs	117	(94)
Management has long-term vision	7	(15)
Financial soundness	8	(9)
Company others try to emulate	27	(38)

19 Daimler-Benz

Attribute	Ranking '94	('93)
High-quality services/products	4	(11)
Innovative in responding to customer needs	60	(45)
Management has long-term vision	25	(22)
Financial soundness	38	(31)
Company others try to emulate	10	(8)

School's Out

Survey respondents value work over MBA

We have some shocking advice for all you students struggling through MBA courses: Get a job instead.

Judging by the results of this year's REVIEW 200 survey, many of Asia's top executives and managers think you're wasting your time. Only 26% said it would be very important for a potential manager to have an MBA. By contrast, 36% said it wasn't very important. The rest were ambivalent. That's not a very good sign for all the MBA programmes that continue to sprout around the world (*see survey findings in columns two and three*).

What's *really* important is work experience in a potential employer's industry: 84% said it was very important, while just 4% said it wasn't.

The survey respondents ought to know because they're the ones doing the hiring. In fact, the majority of participants are in top management.

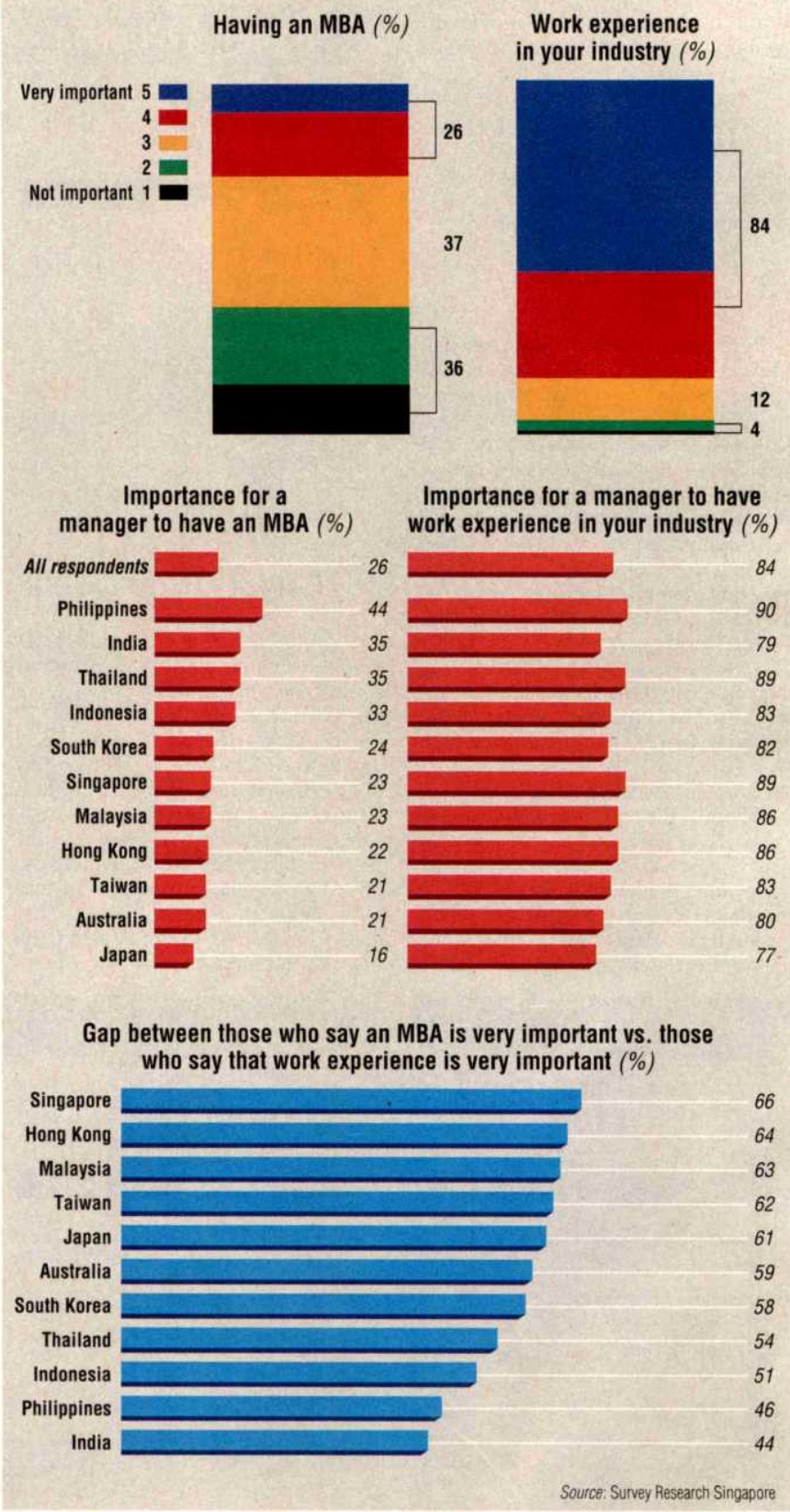
It's interesting to see how the MBA is perceived around the region. The MBA's biggest fans are in the Philippines, where 44% of the respondents thought it was important for a manager to have an MBA. Maybe that's because the Philippines is the home of Asia's leading management school, the Asian Institute of Management. Close behind were India and Thailand, where 35% in each country thought an MBA was important.

Forget about impressing anybody in Japan with your MBA. A mere 16% of respondents in Japan thought it was important to have one. The degree is only somewhat more valued in Australia and Taiwan, where 21% of the survey participants considered it important.

But if you've got work experience, you're going to have a much easier time getting a job. An overwhelming majority of respondents in all 11 countries in the survey thought it was very important for a manager to have work experience in the employer's industry. The percentage ranged from 77% in Japan to 90% in the Philippines.

So perhaps all you future managers had better work in industry instead of on an MBA. ■ **John M. Leger**

Important Considerations When Hiring a Manager



Heavy Traffic

By Henny Sender

When **Honda** first decided to take the plunge into the United States market 20 years ago, the move was regarded as bold and risky.

After all, the American market had long been the world's most open and competitive. But then Honda has always looked beyond the safety of the home market. In the year to March, 67% of the car maker's consolidated revenue came from overseas markets, largely from the U.S. In fact, North America accounts for a greater share of Honda's revenue — 43% — than does Japan (33%).

From the beginning, the thinking at Honda was global, one reason REVIEW 200 respondents in Japan consider Honda among the most innovative Japanese companies. It also ranked No. 5 in overall leadership. "Honda was the first to develop a world car," notes Julia Baldini, automotive analyst at Schroder Securities (Japan). "Honda's product range isn't so broad but they sell the same car everywhere, in Japan, the U.S. and Europe with only minor modifications. That gives them enormous economies of scale."

Pioneering the world car concept has given Honda a flexibility that is the envy of competitors. When costs in its U.S. operation dropped, Honda became the leading exporter of American-made cars — to its home base. That flexibility matters more now than ever, given the appreciation of the yen. For the first six months of 1994, Honda's exports from the U.S. were up 40% to 35,000. By 2000, it expects to increase that figure four-fold.

"We regard Honda as the most established and organised in terms of its global production and distribution network," says Kaoru Kurata, automotive analyst for Goldman Sachs (Japan). "It has achieved the highest profit margins among major Japanese car makers, chiefly through localised production."

Asia currently accounts for less than 13% of total revenues, a figure that Honda plans to grow in coming years. Honda is focusing on Thailand, which accounts for 50% of the Asean market. By offering instalment sales, Honda managed to increase car sales in Thailand 60% in the first eight months of 1994. Honda also has formed a joint venture with a local Chinese company, Tofu Koshi, to cast components for 150,000 cars by 2000.

Honda emphasises global production as much as global sales. The company has worked out a comprehensive parts-supply network in Southeast Asia. That network embraces Indonesia, where engine components are produced; Malaysia, where Honda makes plastic parts; Thailand, where four affiliates make press parts, vehicle lights and clutches; and the Philippines, where half a dozen affiliates turn out transmission parts and interior fittings.

Honda's motorcycles are even more familiar in Asia than its cars. Asia now accounts for a healthy 40% of Honda's motorcycle revenue. Thailand will be the base for exports to such promising markets as Vietnam and India.

GREG GIRARD

Japanese car makers rev up their Asian drive.

While Honda may be the swift hare, **Toyota** resembles more the lion. It can afford to watch the world from its lair, confident that when it emerges from the shadows, all the others will make room for it. Perhaps that's why Japanese readers voted Toyota the No. 2 overall leader in the REVIEW 200.

Nobody has ever accused Toyota of jumping into any market feet first. But when it does move, it is an awesome sight.

"Toyota is always the second wave," explains Schroder's Baldini. "While Honda takes risk and leads the way, Toyota lets the others falter and learns from their mistakes. And because they have a zillion yen, their sheer spending power can always put them in the top spot."

Conservative and careful does not mean, though, that Toyota is inflexible and short-sighted, one reason Toyota topped the list as the company in Japan others try most to emulate. Toyota didn't get to be the most profitable company in Japan purely because of its size. "Toyota's strategy has always been to be the low-cost producer in any market," adds Baldini. "They have consistently implemented it. They run a pretty tight ship."

Years before restructuring and cost-cutting became buzzwords as Japan went from bubble to bust, Toyota began cutting costs. The cover of the company's 1994 annual report, in fact, features the slogan, "How We Saved US$1.5 Billion."

A leaner cost structure means greater internationalisation in procurement. Thus, one of Toyota's greatest challenges is to manage international logistics as the company assembles a global database of suppliers. Toyota's production system is built around its famous just-in-time-processes, which keep expensive inventories from piling up.

Toyota's fastest-growing overseas markets lie in Asia, although Southeast Asia continues to be of far greater importance to Toyota than is East Asia. Toyota plans to double production capacity in Thailand to 200,000 by 1997 from 100,000 now. By contrast, its output in China currently consists of technology provided to Shenyang Jinbei Passenger Vehicle Manufacturing Co. for the manufacture of 5,000 light vans.

The corporate strategy is to sell 6 million cars worldwide by the end of the decade, up from 4.4 million in the year to last March. "We will sell more than half of those cars outside Japan," the annual report promises. "And Toyotas produced outside Japan will outnumber exports."

And wherever Toyota decides to pounce, its impact will be immense. ■

Big Fish in a Big Sea

By Emily Thornton

The scene: the largest **McDonald**'s in the world at the intersection of Wangfujing Street and Changan Avenue in Beijing. A Westerner tries to order an ice cream. The item is listed on the menu overhead, but it's not among the pictures on the counter-top menu that's used when words don't work.

An eager and smiling sales clerk tries to divine the order by the point-and-choose method. At each selection, the customer shakes her head no. The clerk, still trying, looks mystified. The customer feels stranded. In a last-ditch effort, she mimes the licking of an ice-cream cone. Bingo!

The customer gets her vanilla cone and McDonald's has proof that elements of its employee-training programme are translating — at least some of the time. For the fast-food chain is exporting more than burgers and fries to Asia. It's also selling a concept: service with a smile. Though considered standard practice in the West, it's a revolutionary sales technique for China. In Japan, a smile is taken so seriously that it is often listed on the menu board. The price: ¥0.

It's also just one of numerous innovations in technology, management, and service that American and European companies are scrambling to bring to Asia. Be it new and improved toothpaste, Mickey Mouse cartoons, McNuggets, advanced semiconductor chips or power generators, Western multinational corporations are racing to Asia to participate in the region's high-speed consumer and industrial revolution.

Walt Disney sells more than US$3 billion of merchandise annually in Asia. **KFC International** will roughly quadruple the number of its restaurants in China alone to 200 and invest US$600 million in Asia by 1998. Of McDonald's 15,000 restaurants worldwide, 2,500 are in Asia. Its franchise owners are skipping to the bank in virtually every country where the chain operates.

IBM sales in the region have more than doubled to US$10 billion from US$3.7 billion about a decade ago. **General Electric**'s business of supplying power plants in the region has more than doubled to reach US$2 billion in orders within the last year, after the company increased by four-fold the number of employees calling on Asian customers — namely governments — to nearly 200 people.

"We've made significant strides to shift the centre of gravity to Asia," says Delbert Williamson, president of General Electric Power Systems Asia. Close to 20% of the parent company's worldwide orders come from Asia, which now accounts for half the world's power market.

Behind foreign multinationals' soaring interest is the region's emergence as one of the world's largest markets for everything from cosmetics to construction materials. Asia now accounts for half of the world's power market. The region's infrastructure bonanza alone is expected to reach US$1 trillion by 2000, according to the Asian Development Bank.

Almost across the board, Asia's demand is outstripping supply. Airlines need more planes to keep up with executives negotiating skyscraper and highway contracts around the Pacific Rim. Industries need more than twice the 7 million barrels of oil produced everyday in the region to maintain their exponential surge to industrialised status.

Asia's explosive growth in some sectors is even setting new records. China, for instance, plans to install 12-15 million new telephone lines annually. "That's the equivalent of adding one of the regional telephone companies in the United States every year," says **AT&T** Chairman Robert Allen. AT&T already employs 1,000 people in China and plans to double that number within the next several years.

Companies do not need to limit their interest to China, however. "Right now there are so many people with so much money chasing too few good opportunities. They should look at other markets as well like Indonesia or Thailand," says William Best, vice-president of consulting firm AT Kearney Asia.

A burgeoning middle class spanning countries as diverse as Japan and Vietnam is boosting sales of not only upscale **Rolex** watches but also burgers and french fries. "If there's a strong middle class in a country, then there's room for McDonald's," says Peter

REVIEW 200 Leadership Qualities

HIGH QUALITY SERVICES/PRODUCTS	INNOVATIVE IN RESPONDING TO CUSTOMER NEEDS	LONG-TERM VISION	FINANCIAL SOUNDNESS	COMPANIES THAT OTHERS TRY TO EMULATE
1 (1) Rolex	1 (1) McDonald's	1 (3) Microsoft	1 (4) Bank of America	1 (2) McDonald's
2 (3) Kodak	2 (9) Nike	2 (8) Motorola	2 (3) Deutsche Bank	2 (1) Coca-Cola
3 (2) BMW	3 (7) Microsoft	3 (6) Boeing	3 (2) Citibank	3 (4) Microsoft
4 (11) Daimler-Benz	4 (4) Walt Disney	4 (1) Coca-Cola	4 (6) Chase Manhattan	4 (5) IBM
5 (4) Rolls-Royce	5 (5) Citibank	5 (2) McDonald's	5 (N.A.) UBS	5 (12) Motorola
6 (9) Motorola	6 (3) Apple Computer	6 (4) Walt Disney	6 (12) Standard Chartered	6 (3) Walt Disney
7 (8) Nestlé	7 (10) Motorola	7 (15) Royal Dutch/Shell	7 (11) Swiss Bank Corp.	7 (14) BMW
8 (21) 3M	8 (26) Benetton	8 (5) AT&T	8 (9) Royal Dutch/Shell	8 (20) Citibank
9 (15) Volvo	9 (24) Colgate-Palmolive	9 (10) General Electric	9 (5) Esso/Exxon	9 (11) Boeing
10 (5) Xerox	10 (2) American Express	10 (14) Citibank	10 (1) Coca-Cola	10 (8) Daimler-Benz

Rankings '94 ('93)

Ritchie, chairman of McDonald's Australia. Ritchie would not say how much sales are increasing. Frankly, it doesn't matter, he says: "Percentages are meaningless. Every country is growing as fast as we ever have in the last 10 years anyway."

By 2010, Asia's emerging markets could account for a larger share of world imports than Japan and the European Union combined. Indeed, these days the Chinese are not just purchasing the usual electronic basics — laundry machines and TVs. Within the next two years, they are expected to be buying 1 million personal computers annually.

What makes opportunities even more attractive is that many of these countries are catapulting to an industrialised status from embryonic stages. Says Laurie Kan, managing director of **Microsoft** Hong Kong: "Now that personal-computer technology is rapidly expanding they [Asian countries] are able to take advantage of the latest technology. Some solutions will be better and lower cost than the Western systems," where expensive mainframe computer databases remain the norm.

The fresh start creates a unique opportunity for Western firms to build their brand names. By making a serious and early commitment to China almost a decade ago, California-based **AST**, for instance, has become the country's most popular personal-computer maker with roughly a 30% market share. (The company's worldwide sales were US$2.4 billion last year.)

Says Robert McFarland, vice-president of AST Asia-Pacific: "There are a lot of people who dumped products in China. We've never done that. A brand equity gets built on product performance, availability and service."

Asian countries' clean slate also permits Western companies to start off with selling Asians their leading-edge technology. In the U.S. and Europe, telecommunications companies will have to replace extensive cable infrastructure with new fibre-optic networks. But in China, "we are able to bring the latest technology to China even as we introduce it in the United States," says AT&T's Allen. He was at the opening ceremony for a 2.4 gigabit high-speed digital transmission network linking Hong Kong and China's southern Guangdong province. The supplier, AT&T Network Systems, says the system is as fast as any commercially available in the world.

Learning how to use such hi-tech devices will be critical to the region's development after the current cost advantages of cheap labour disappear. "It's critical for Asian countries to increase their value-added content, and the information technology content must also grow," says David Shrigley, a vice-president of **Intel**'s Asia-Pacific operation.

Nevertheless, none of this means that selling in Asia is ever going to be easy. Governments, for one, can be unpredictable, as McDonald's knows only too well. The company thought it had a 20-year lease on its showcase Beijing store until the city government recently announced that the site would be bulldozed to make way for a commercial centre. Authorities, however, have said that McDonald's will be able to relocate in the centre.

24 PepsiCo

Attribute	Ranking '94	('93)
High-quality services/products	65	(107)
Innovative in responding to customer needs	17	(38)
Management has long-term vision	21	(31)
Financial soundness	30	(26)
Company others try to emulate	24	(34)

Then there's the problem of competition — both local and foreign. The combination of rising wealth and lessons learned from foreign companies' examples is sparking formidable local competitors, and not just in cutthroat Japan. Asian clothing retailers such as Hong Kong's **U2** are giving Italy's **Benetton** a run for its money, analysts say. In Thailand, **Avon** is being challenged by **Better Way**, a local company that also sells cosmetics door-to-door.

What's more, as sales in America and Europe remain flat, an increasing number of Western multinationals are keen to take part in Asia's swelling markets. "China is the only market I know where every major competitor is competing for market share," says AT&T's Allen.

While **Coca-Cola** is the leader in most of the region's soda markets, the company will have to cope with a Pepsi challenge in emerging markets such as China, where **PepsiCo** hopes to have 25 bottling plants by 2000. (The company bought three out of China's eight major bottlers this year.) "We are not accepting that we are No. 2," says Miguel Ko, president of Asia-Pacific for Pepsi-Cola International, the international beverage division of PepsiCo.

Westerners also must contend with Japanese multinationals that have been spinning regional webs of production for at least a decade. Says AT Kearney's Best: "Our concern is that while Western multinationals have a lot of money and interest, Japanese investment is more strategic." To escape the problems of economy of scale, for instance, **Toyota Motor**'s five auto companies in Southeast Asia trade ¥6.3 billion (US$63 million) of floor panels and steering systems among them annually to supply each company's auto production.

Some Western multinationals divide their production bases around Asia. **Nestlé**, for instance, makes Kit Kat candy in Malaysia, Coffeemate in Thailand, soy-milk powder in Indonesia and breakfast cereal in the Philippines. With the exception of Thailand, the approach enables the company to benefit from preferential tariff treatment in each country.

Gerry Komlofske, vice-president of consulting firm Booz, Allen & Hamilton in Hong Kong, says of the increasingly heated competition to corner Asia's markets: "If you're market-driven, you'll be too slow. You have to be market-driving."

Still, many foreign companies will suffer fits and starts in their quest to stimulate demand and drive the market. Notes Trevor MacMurray, managing director of consulting firm McKinsey & Co.'s Hong Kong office: "You cannot turn around a country overnight."

Microsoft learned this lesson earlier this year when it was accused of trying to monopolise China's software market and failed to get support from the powerful Ministry of Electronics Industry for its Chinese Windows software. The source of the problem: the version used Taiwanese fonts that are different from those typical in China.

Microsoft in early December took the first step in making amends by signing a memorandum of understanding to work with Chinese vendors in the development of its Windows 95 program in China. The company also plans to boost the number of its employees there to 30 from six over the next year. Shaw Gang Yang, Microsoft's general manager for greater China, says: "We made some mistakes. The key from now on is to work like a team." ■

OVERALL LEADERSHIP

1 —— Ranking scale —— 7

'94 ('93)	
1 (2) Broken Hill Proprietary	5.94
2 (N.A.) National Australia Bank	5.72
3 (1) Woolworths	5.60
4 (6) Pacific Dunlop	5.30
5 (3) News Corp.	5.20
6 (4) Qantas Airways	5.19
7 (8) CRA	4.90
8 (11) CSR	4.82
9 (16) BTR Nylex	4.79
10 (9) Boral	4.78

BHP

BHP Managing Director John Prescott.

BHP

The 'Big Australian' explores for oil in Vietnam.

Mining Its Strengths

By Jacqueline Rees

They call it "The Big Australian." No wonder. Since the founders of **Broken Hill Proprietary** started mining an isolated hilltop in western New South Wales in 1885, BHP has grown into Australia's largest company. Today it has interests in mining and minerals processing, steel making and oil and natural gas.

Just how big is big? The company's after-tax profit grew 8% to A$1.3 billion (US$1 billion) in the year to September 30 on revenues of A$17 billion. The company's assets are now valued at A$27.7 billion, more than one-quarter of which are located offshore.

This year in the REVIEW 200 survey, BHP overtook **Woolworth**'s for first place in overall leadership. The survey's respondents also ranked the company No. 1 for financial soundness, long-term vision and as a company that others try to emulate.

It's not hard to understand why. David Love, an analyst at Syntec, a private economics-research firm in Canberra, says BHP's ability to combine conservative management with major strategic opportunities lies behind its greatness. "This has characterised its long history from its evolution as a mining company to national steel producer at a time when that was precisely what the nation wanted," he says.

Today BHP is Australia's largest producer and exporter of steel. It reported domestic steel sales rose 14% to 1.9 million tonnes in the five months to October from 1.7 million tonnes a year earlier. Shipments of steel for export, meanwhile, rose 10% to 1.1 million tonnes in the five months from 1.03 million tonnes a year ago.

"BHP's commitment to the Australian steel industry over the past decade has been considerable," notes John Prescott, BHP's managing director. "Capital expenditure exceeded A$5.3 billion, with 90% of it invested here in Australia."

Prescott attributes part of BHP's success to keeping costs low. "Our relentless efforts to improve cost competitiveness have made us one of the lowest-cost, if not *the* lowest-cost, steel producer in the world, which has a real impact on profit results," he says. "We haven't ignored technology either. In steel, we are creating new markets through the development of new products and greater penetration into the premium-quality markets in Southeast Asia and Japan because of our advanced coating technology."

How big BHP will become is unclear, but one thing is certain: It's a company on the move. BHP hopes to build at least 14 new steel-rolling mills in 10 Asian countries within the next two years. And as part of its global expansion strategy, it recently announced plans to form a joint venture with North Star Steel of America to build a flat products steel plant in the midwestern United States at a cost of more than US$400 million. The minimill will have a capacity of about 1.5 million tonnes a year of hot, rolled steel coil.

Meanwhile, last year the company announced a joint venture with DaiMet, a Canadian mining company to explore for diamonds in Canada's Northwest Territories; began construction of a cathode plant at Escondida, its copper mine in Chile, and started building a new blast furnace at its steel plant in Port Kembla in southern Australia. It also

completed negotiations to develop a thermal coal mine, Petangis, in Indonesia.

In October, BHP signed a deal with the Zimbabwe Government that will allow underground development to proceed on the Hartley platinum mine, 80 kilometres from Harare. What's more, it plans to develop an offshore gas field and associated 100-megawatt power station in Ecuador.

"BHP has not waited for improving conditions and higher commodity prices to grow our businesses," says Prescott. "We are actively seeking ways to run our businesses better, to expand them in areas where opportunities arise and to position ourselves in industries to take advantage of other growth opportunities worldwide."

In the process, BHP has paid close attention to cost-containment programmes, industrial relations and flexibility. "The pursuit of change is seldom easy," says Prescott. "People feel threatened by new ways of doing things, and fear is counter-productive to improvement."

Ranking second in the REVIEW 200 survey in terms of overall leadership was a newcomer to the list, **National Australia Bank**. It also took the No. 2 spots in financial soundness and as a company that others try to emulate. In addition, it placed in the top five in long-term management vision and being innovative in responding to customer needs. The bank is Australia's most profitable listed company.

In November, it announced net earnings of A$1.7 billion for the year to September 30, up 51% from the year-earlier period. And executives at the bank boast it is Australia's most productive bank, turning out more profit per employee than any competitor.

The group has emerged from Australia's recession as the country's leading bank and the only one that has not had to pay the price for excessive property investment during the late 1980s.

"We resisted the temptation to get into that ritzy business," notes Haydn Park, the bank's external-relations manager. "It was a strength of our management. We had very firm values and although we were innovative in other ways, we made a conscious decision not to take the wrong risks. We stuck to our own knitting, we married and took into the family only banks which looked like us and stuck to our forte in small and retail fields."

The bank also concentrated on developing technology and commissioned a study on the technology it would need to take it beyond the year 2000. It was the first bank in Australia, for example, to introduce automatic teller machines. Now along with credit control, growth in market share, and good acquisitions, its emphasis on technology has been a primary factor behind its success.

National Australia Bank was formed in 1981 through a merger of the then National Bank and the Commercial Banking Co. of Sydney. Six years later, it bought Scotland's Clydesdale Bank, Belfast's Northern Bank and National Irish Bank in Dublin. In 1990, the group acquired Yorkshire Bank of Britain and snapped up Bank of New Zealand in 1992.

Ian Huntley, an analyst who tracks the banking business at Huntley & Associates in Sydney, says the bank has skilfully adhered to the adage: "when a duck quacks feed it." He says the bank wisely has lent to Australia's retailers and small businesses. The bank's earnings growth can also be credited to strong profit gains by its Australian, British and Irish operations and a sharp fall in bad and doubtful debts.

Respondents to the survey also ranked **CSR**, Australia's building-products and sugar giant, No. 8 in overall leadership this year, up from No. 11 a year earlier.

The company's after-tax profits rose 40% to A$296.5 million in the year to March 31 on record sales of A$5.4 billion.

In 1993, the company committed more than A$200 million to joint ventures in Asia. CSR says the biggest gains for its shareholders will come from improving its existing businesses; CSR is investing A$200 million in north Queensland to expand capacity at its raw sugar mills; building a new paver and brick factory in Sydney and expanding its cement factory in Tasmania. It has also expanded into landfilling, contract mining and recycling waste building materials. Meanwhile, it is making higher-value timber products, many for export. Overall it plans to invest A$500 milion on growth initiatives in the fiscal year ending March 31, 1995.

One of Australia's largest industrial companies, **BTR Nylex**, also did well in the survey, moving into the No. 9 spot in overall leadership from No. 16 a year before. BTR Nylex is involved in a wide variety of manufacturing operations, ranging from plastics to glass and building materials.

BTR Nylex profit rose 9.8% to A$401.2 million in 1993. The company has expanded internationally with ventures for its packaging group in China and Hungary and metal-building products in the U.S. ■

HIGH QUALITY SERVICES/PRODUCTS

'94	('93)	
1	(1)	Qantas Airways
2	(3)	Pacific Dunlop
3	(2)	Woolworths
4	(5)	Foster's Brewing
5	(N.A.)	National Australia Bank

INNOVATIVE IN RESPONDING TO CUSTOMER NEEDS

'94	('93)	
1	(1)	Woolworths
2	(N.A.)	Ansett Transport
3	(5)	Qantas Airways
4	(N.A.)	National Australia Bank
5	(3)	Pacific Dunlop

LONG-TERM VISION

'94	('93)	
1	(1)	Broken Hill Proprietary
2	(2)	News Corp.
3	(4)	Pacific Dunlop
4	(5)	CRA
5	(N.A.)	National Australia Bank

FINANCIAL SOUNDNESS

'94	('93)	
1	(1)	Broken Hill Proprietary
2	(N.A.)	National Australia Bank
3	(2)	Woolworths
4	(4)	CRA
5	(3)	Telecom Australia

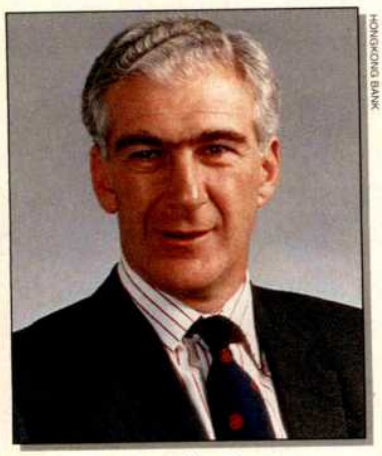
COMPANIES THAT OTHERS TRY TO EMULATE

'94	('93)	
1	(3)	Broken Hill Proprietary
2	(N.A.)	National Australia Bank
3	(2)	Woolworths
4	(1)	Qantas Airways
5	(4)	News Corp.

OVERALL LEADERSHIP

1 —— Ranking scale —— 7

'94 ('93)		
1 (1)	Hongkong Bank	6.30
2 (3)	Hongkong Telecom	5.87
3 (5)	Mass Transit Railway Corp.	5.84
4 (2)	China Light & Power	5.83
5 (9)	Cheung Kong	5.70
6 (8)	Swire Pacific	5.66
7 (4)	Cathay Pacific Airways	5.62
8 (7)	Hutchison Whampoa	5.59
9 (15)	Sun Hung Kai Properties	5.46
10 (6)	Hang Seng Bank	5.43



HONGKONG BANK

HSBC Executive Director Paul Selway-Swift.

GERHARD JÖREN

Hongkong Bank: The Money Machine.

Learning to Adjust

By Gary Silverman

Hamish Mathers, chairman and chief executive officer of Hong Kong's **Mass Transit Railway**, says the most common complaint he hears from riders is that subway stations are getting hotter. He says they're wrong — and they're right.

Temperatures in underground stations have been the same for years, he maintains, but they feel warmer because indoor Hong Kong is getting cooler. "People have air-conditioning in their house, in their car, in their office," he says. "It's not that our system has gone down. It's just that people's expectations are greater."

And rather than argue the point, the government-owned railway corporation is responding. The line that will be built to Hong Kong's new international airport will feature platform screen doors, which prevent cooled air from escaping from the tunnels. And a study will be conducted on installing platform screen doors in the existing system. "We will be trying to reduce the temperature," Mathers says.

Hong Kong reality is a funny thing. As MTR has discovered, the obvious facts are not always the relevant facts. And as everyone knows, facts of all kinds are going to change anyway when China takes over in 1997. You simply have to adjust — as the top Hong Kong companies in the REVIEW 200's survey demonstrate.

Hongkong Bank heads the list for the second consecutive year. **Hongkong Telecom** moves up to second from third and MTR to third from fifth. **China Light & Power** drops back to fourth from second, while billionaire Li Ka-shing's property and investment company, **Cheung Kong**, jumps to fifth from ninth.

For Hongkong Bank, 1994 has been a year requiring more than the usual dexterity because the United States Federal Reserve surprised markets worldwide with higher interest rates in February. Since the Hong Kong dollar is pegged to the U.S. currency, Hong Kong rates also climbed, raising fears among analysts that profit margins at banks would narrow as the cost of funds rose faster than interest on loans.

But for Hongkong Bank, as a Credit Lyonnais Securities report concludes, "bigger is, in this case, better." It turns out that Hongkong Bank and sister institution **Hang Seng Bank** (also a subsidiary of parent HSBC Holdings and No. 10 in this year's survey) could see their profit margins widen because they have so much money in the interbank market. Smaller banks, Credit Lyonnais says, will suffer.

Paul Selway-Swift, executive director of HSBC in charge of Hongkong Bank's operations in Hong Kong and China, says there's no question size helps. "I'm happy to have as broad a spread of businesses as possible," he says. "It is a period of change."

Particularly worrisome is the possibility high inflation will give way to a hard landing in China, dragging down the Hong Kong economy in the process, says Selway-Swift. But he remains sanguine about Hongkong Bank's fortunes on the mainland. Collecting debts has not been a problem, he says, and loans to Chinese businesses are of "good quality."

"We are probably the biggest foreign

lender to China. On the other hand, in terms of total assets of the group, our exposure to China is not what I would deem to be significant," he says. "We are not in a rush in China. We are ambitious in China. We know where we want to go in China. We believe we will get there."

Several of the other top Hong Kong winners — notably Hongkong Telecom and Cheung Kong — also are expanding in China. China Light & Power is in the midst of a strategic review now that its core business has matured, but Jardine Fleming analyst Sheldon Kasowitz predicts foreign expansion is in its future. "They are doing what they need to do to avoid some major upheaval 10 years from now," he says.

MTR's future became clearer in November when Britain and China finally agreed on a financing package for the HK$35.1 billion (US$4.5 billion) connecting railway to the Chek Lap Kok airport. Under the deal, the Hong Kong Government will put up HK$23.7 billion in equity, while MTR will be allowed to issue HK$11.4 billion in debt. Debt issues in both the Japanese and U.S. markets are a possibility, says Roger Moss, the railway's finance director.

In building the new line, Mathers says the railway also will make a major policy change — as far as riders are concerned — by installing toilets in its system for the first time. But in a demonstration of managerial backbone, Mathers is refusing to budge on proposals to replace the notoriously slippery metal seats on Hong Kong subway trains.

"We must be the only railway in the world where we get the passengers to clean the inside of our compartments every day when they slide up and down these seats," Mathers says. "They are functional. They are ideal for Hong Kong." ■

More Than Skin Deep

Cathay Pacific's US$2.9 million new look, based on a logo drawn with a Chinese calligrapher's brush, is much more than a surface makeover. The new design is a public aspect of a much larger change: Operation Better Shape, a game plan to drastically alter the airline's financial structure.

The problem: costs were rising faster than revenues, and with Hong Kong inflation seemingly fixed at 10%, it was not a problem that was going to go away.

Some accounting work has been shifted from pricey Hong Kong to cheap Guangzhou, over the border in China. A new senior management structure has left eight positions where there had been 10. One rung down the ladder, regional general managers have been given executive powers to lift the commercial performance of their routes.

In its early days, Operation Better Shape was painfully interrupted by the cabin attendants' strike of spring 1993, and was tripped up in summer 1994 by friction with pilots.

Despite all the moves to cut costs, the airline produced disappointing first-half results. Profit attributable to shareholders for the first half was HK$803 million (US$103 million), up 18% from a year earlier. The results don't sound bad until you realise that the first half of 1993 was considered particularly poor, with major losses caused by the cabin attendants' strike.

However, the success of Operation Better Shape in the past 18 months, and the airline's success in dealing with the pilots, has left managers in a bullish mood, despite the shaky state of the airline industry worldwide. "We are taking action to meet these challenges and prepare ourselves for an eventual upturn," says Chairman Peter Sutch.

REVIEW 200 survey respondents seem to agree: The airline's overall-leadership rank dropped to No. 7 from No. 4, but it kept its No. 1 place in offering high-quality services and moved up to No. 2 from No. 3 as a company that others try to emulate.

Managing Director Rod Eddington is proud of the fact that the airline has kept most of its 13,800 staff during a difficult process of restructuring. "The whole idea was to do it before we were forced to do it. Otherwise it would not have been pretty, as other airlines have found out," he says. ■ **Nury Vittachi**

HIGH QUALITY SERVICES/PRODUCTS

'94	('93)	
1	(1)	Cathay Pacific Airways
2	(5)	Mass Transit Railway Corp.
3	(2)	Hongkong Telecom
4	(3)	Hang Seng Bank
5	(7)	Dairy Farm International

INNOVATIVE IN RESPONDING TO CUSTOMER NEEDS

'94	('93)	
1	(1)	Giordano Holdings
2	(2)	Hongkong Telecom
3	(3)	Mass Transit Railway Corp.
4	(8)	Dairy Farm International
5	(5)	Cathay Pacific Airways

LONG-TERM VISION

'94	('93)	
1	(2)	Cheung Kong
2	(4)	Hongkong Bank
3	(8)	Swire Pacific
4	(3)	Hutchison Whampoa
5	(5)	Hopewell Holdings

FINANCIAL SOUNDNESS

'94	('93)	
1	(1)	Hongkong Bank
2	(4)	Cheung Kong
3	(3)	Hang Seng Bank
4	(9)	Sun Hung Kai Properties
5	(2)	China Light & Power

COMPANIES THAT OTHERS TRY TO EMULATE

'94	('93)	
1	(2)	Hongkong Bank
2	(3)	Cathay Pacific Airways
3	(1)	Giordano Holdings
4	(4)	Cheung Kong
5	(7)	Hongkong Telecom

OVERALL LEADERSHIP

1 —— Ranking scale —— 7

'94 ('93)		
1 (3)	ITC	6.45
2 (1)	Hindustan Lever	6.34
3 (2)	Larsen & Toubro	6.29
4 (7)	Reliance Industries	6.25
5 (6)	Tata Engineering & Locomotive	6.13
6 (4)	Bajaj Auto	6.13
7 (N.A.)	Titan Watches	6.07
8 (5)	Tata Iron & Steel	5.99
9 (8)	MRF Ltd./MRF Tyres	5.76
10 (9)	Brooke Bond (I) Ltd.	5.56

NAMAS BHOJANI/BUSINESS TODAY

ITC Chairman K.L. Chugh.

ITC

ITC's biggest revenue earners.

Bucking the Trend

By Hamish McDonald

It sounds, well, like one of those macho cigarette commercials you used to see before they got banned: A maverick executive fights off his distant parent company and strikes out on his own to seek global recognition.

Krishen Lal Chugh, chairman of Indian tobacco and hotel group **ITC**, is one corporate player who certainly has bucked the trend in the Indian business world since New Delhi started liberalising the economy in 1991.

Perhaps that's why this up-start company grabbed the No. 1 ranking for overall leadership in this year's REVIEW 200 survey. It displaced **Hindustan Lever**, which fell to No. 2. ITC also did well in individual leadership categories. For instance, it moved up to No. 2 from No. 5 as a company that others try to emulate.

Many other big consumer-product groups are firming up links with multinational parents that previous government policies had weakened. For example, Unilever regained its majority stake in Hindustan Lever. Others that never had foreign ownership are starting joint ventures with multinationals to get capital and technology. The Godrej group, for instance, has linked up with Procter & Gamble and General Electric.

And right through corporate India, leaders are trying to undo the diversification into unrelated areas that was encouraged as a result of capacity limits. Now the buzzword is "core competency," or concentrate on what you do best.

For decades, bureaucrats in New Delhi tried to direct the country's savings into the investments they chose. That led to falling returns on capital. Now, most big-businessmen want the government to stay out of the game of picking industry winners and leave it to the markets.

Not so Chugh. For the past several months, he has been fighting off efforts by ITC's former owner, the British conglomerate B.A.T Industries, to raise its state to a controlling 51% from around 32%. His declared aim is to make ITC an "Indian multinational." B.A.T never gets a mention in his speeches.

To make it harder for B.A.T to raise its shareholding, Chugh has lobbied hard with the Indian Government and the communist-led government of West Bengal in Calcutta, where ITC has its corporate base. The government-owned banks and financial institutions that own about 39% of ITC (with the public holding the remaining 29%) seem to be backing him, at least passively.

In a speech to ITC's annual meeting in July, Chugh urged India to emulate Japan and South Korea in having government institutions and banks choose potential industrial winners and then concentrate financial support on them. The institutions and banks should have a 26-40% stake in budding multinationals to protect the backs of managers while they concentrated on growth, he said.

After two decades, ITC's diversification moves out of tobacco and cigarettes have met with mixed success. Its 15-hotel ITC-Welcomgroup chain, which has a tie-up with ITT Sheraton, is highly regarded and profitable. So is its paper and paperboard-manufacturing arm, ITC Bhadrachalam Paperboards.

But its ITC Agro-Tech, which is heavily weighted in low-margin edible oils,

is not regarded by analysts as a hot investment. The Singapore-based trading arm, ITC Global Holdings, intended to be an Indian *sogo shosha* like Mitsui or Itochu. But it had revenue of only S$259 million (US$176 million) in 1993.

Tobacco and cigarettes still account for about two thirds of ITC's Rs 60 billion (US$1.9 billion) group revenue. India is far from a mature cigarette market: Most tobacco users either chew the stuff with spices added, or smoke it uncured in thin hand-rolled *bidis*. And competition like Philip Morris, RJR, and Japan Tobacco is on the horizon.

Chugh is still looking to diversify. For some time, ITC has been trying to get into banking and financial services through its subsidiary, ITC Classic (named after its top cigarette brand). Earlier this year, it announced it would try to start a private airline. Both efforts seem stalled. ITC quickly fell out with the foreign partners it had identified: Hong Kong investment house Peregrine Capital in one case, and Singapore Airlines in the other. Recently, ITC announced that food and electric power were the big growth areas it wanted to be in.

ITC runs the third-biggest private-sector group in India, after the Tata and Aditya Birla empires, and has returned handsome dividends to its shareholders. The parent firm is expected to report a 30% rise in net profits for the fiscal first half to September 30. It has the top brand names in its field, and one of India's most extensive distribution networks for consumer items.

But investment analysts currently are cautious about the stock of this Indian blue chip. They cite the unresolved relationship with B.A.T, the personality clashes that came out in the split with Peregrine and ITC's rapid switch in objectives.

Some wonder whether Chugh's multinational ambitions are really in the best interests of ITC shareholders, who might prefer the company to be strengthened by B.A.T's brand names and market expertise to face the other cigarette giants coming into the market. B.A.T could even decide to team up with another, smaller Indian tobacco firm called VST, in which it also has a 33% stake. Whatever happens, ITC can be sure of one thing: it's likely to have a high public profile for quite some time.

Another high-profile Indian company is **Titan Watches**. It's a newcomer to the REVIEW 200, taking the No. 7 spot for overall leadership. It also grabbed the No. 1 positions for high-quality products and innovativeness in responding to customer needs.

Titan will soon raise its profile even further: It will shortly become the first Indian company to put a major consumer brand name into global markets. It will start selling a new range of Titan wristwatches and jewellery in Europe, backed by a classy advertising campaign.

At the Diwali and Christmas gift-giving seasons, meanwhile, Indian consumers will already have had a preview. In up-market shopping centres around Indian cities, smart Titan showrooms have been opening up — selling watches that look every bit as good as Japanese or European designer brands. In addition, Titan is selling sporty watches made in India by a joint venture with American mass-market watch maker Timex, including the innovative Indiglo watch with a light-up face.

India is set to lift its longstanding ban on imports of consumer items by March 1997. Titan welcomes the competition. By hitching top European designers and marketers to low-cost, skilled workers at its new plant near Bangalore, it is getting the best of both worlds.

Titan sold nearly 1.3 million watches in the fiscal first half to September 30, up from 1.05 million a year earlier. The last six months of the current financial year include the peak gift times, as well as the launch of Titan's jewellery and jewellery-watch range. The company expects revenue to rise about 52% to Rs 3.5 billion for the full year. Net profit is expected to increase by a similar percentage from the year-earlier Rs 190 million.

"We are expecting an all-round improvement in our performance [in the current year, ending March] despite high taxes, the menace of smuggling and investments of almost US$50 million in new plants which have gone on stream only in the first half of this financial year," says Xerxes Desai, Titan's vice-chairman and managing director.

Reliance Industries moved up smartly in the REVIEW 200. It took the No. 4 position in the overall-leadership category, up from No. 7 a year earlier. It also took the No. 1 spots for long-term management vision and financial soundness and improved its position as a company that others try to emulate.

India's largest private-sector company is moving aggressively into new fields. Formerly known as a textile and petrochemical producer, it is now pursuing oil exploration and refining. It also plans to enter the telecoms field. ■

HIGH QUALITY SERVICES/PRODUCTS

'94	('93)	
1	(N.A.)	**Titan Watches**
2	(1)	**Larsen & Toubro**
3	(3)	**Tata Engineering & Locomotive**
4	(2)	**Hindustan Lever**
5	(4)	**Bajaj Auto**

INNOVATIVE IN RESPONDING TO CUSTOMER NEEDS

'94	('93)	
1	(N.A.)	**Titan Watches**
2	(1)	**Videocon International**
3	(2)	**Hindustan Lever**
4	(3)	**ITC**
5	(11)	**Peico Electronics & Electricals**

LONG-TERM VISION

'94	('93)	
1	(2)	**Reliance Industries**
2	(3)	**ITC**
3	(6)	**Essar Gujarat**
4	(4)	**Larsen & Toubro**
5	(5)	**Tata Engineering & Locomotive**

FINANCIAL SOUNDNESS

'94	('93)	
1	(12)	**Reliance Industries**
2	(7)	**ITC**
3	(1)	**Hindustan Lever**
4	(3)	**Larsen & Toubro**
5	(5)	**Bajaj Auto**

COMPANIES THAT OTHERS TRY TO EMULATE

'94	('93)	
1	(1)	**Hindustan Lever**
2	(5)	**ITC**
3	(6)	**Reliance Industries**
4	(3)	**Larsen & Toubro**
5	(2)	**Tata Engineering & Locomotive**

OVERALL LEADERSHIP

1 —— Ranking scale —— 7

'94 ('93)		
1 (1)	Indosat	5.67
2 (2)	Astra International	5.58
3 (3)	Toyota Astra Motor	5.48
4 (7)	Freeport Indonesia	5.25
5 (5)	Bank Central Asia	5.09
6 (19)	Indofood	5.07
7 (4)	Gudang Garam	5.02
8 (N.A.)	Bank Bali	4.98
9 (N.A.)	Bank Niaga	4.96
10 (6)	United Tractors	4.95

TAGOR SIAGIAN/JAKARTA-JAKARTA

Indosat President Tjahjono Soerjodibroto.

INDOSAT

Indosat control room.

Flying High

By John McBeth

In big business, form horses usually stay true to form. Fresh from an exhilarating ride on the New York Stock Exchange, newly listed telecommunications giant **Indosat** looks to be no exception as the repeat overall winner among Indonesia's leading companies. And the way President-Director Tjahjono Soerjodibroto talks, the company has just left the starting gate.

His "one-plus-three" strategy involves branching into domestic infrastructure development, regional mobile satellite systems and value-added software services in support of the core international telecoms business.

Along with cash generated from its current operations, Indosat's share of the proceeds from its mid-October listing on the New York and Jakarta exchanges is being funnelled into a Rps 1.94 trillion (US$900 million) 1994-99 investment programme. About 41% of that sum will go towards international services, 31% for domestic projects, 13% into regional initiatives and 15% to finance limited diversifications.

Indosat, Australia's Telstra and Mitra Global Telekomunikasi Indonesia form one of the 12 consortiums pre-qualified for a share of the two million lines that state-run Telkom has set aside for private-sector participation in its expansion project. Tender documents must be submitted before March 31. The government is likely to award contracts for the 11 different regional packages as early as June.

Indosat has also invested US$29.6 million in a joint venture with Telkom to establish a nationwide GSM digital cellular telephone network. It is contributing US$80 million to the cost of a new fibre-optic submarine cable, due to be commissioned in late 1996, linking Indonesia, Singapore, Malaysia, Thailand, Philippines, Hong Kong, Taiwan, South Korea and Japan.

After recently opening its fourth gateway in the port city of Surabaya, Indosat is now having to contend with competition for the first time. Satelindo, a joint venture in which Indosat actually has a 10% interest, began offering international phone services last September, although it will be another six months before foreign counterparts begin to provide return traffic.

Satelindo is 60%-owned by Bimagraha Telekomindo, part of the Bimantara Group of President Suharto's second son, Bambang Trihatmodjo. But Tjahjono shrugs off questions about political favouritism or the possibility of the government retracting its 10-year moratorium on the issuance of new licences. "There is no difference in pricing and access," he says. "Customers can choose which one they want anytime, so we have to convince them that if they use us they'll get a better service."

Tjahjono does not foresee any government action to cut the charge for overseas calls, pointing out that the graduated devaluation of the rupiah during the year is having a similar effect anyway. "We can only make a case to the government," he notes, "if we can show that additional volume justifies a tariff reduction."

Following hard on Indosat's heels, predictably enough, were car-maker **Astra International** and its equally well-managed subsidiary, **Toyota Astra Mo-**

tor. They finished second and third overall. Astra International grabbed the most votes for having high-quality products, while Toyota Astra Motor took the No. 1 position as a company that others try to emulate.

With Toyota, Daihatsu and Isuzu in its inventory, nothing apparently can shake Astra's hold on the Indonesian automobile market. In fact, a hefty 52-54% of the more than 300,000 vehicles to be sold in 1994 will come from Astra showrooms. Commercial vehicles account for 87% of sales because they are cheaper and roomier. But Astra Toyota President-Director Rudyanto Hardjanto says that growth of the middle class, smaller families and other factors will see passenger cars assuming a greater share of the market.

In the meantime, with deregulation probably still a longer-term concern, Astra International continues to strut its stuff. Consolidated net profit in 1994, according to latest market forecasts, will be about Rps 247 billion, nearly double the 1993 level. Vehicle sales from January to September rose 62% year-on-year to 125,100.

Among all the top contenders, the biggest improvement was shown by **Indofood**, a unit of the giant Salim Group and the world's largest manufacturer of packaged noodles. It finished sixth overall, up from No. 19. It also headed the list of firms cited for their innovative approach to customer requirements.

Indofood faced a major challenge in 1994 in having to deal with a suspected case of contaminated noodles. The government subsequently found no evidence that Indofood noodles were the cause of five deaths in a remote South Sumatra village. But Managing Director Hendy Rusli says the firm had to launch an expensive consumer-education programme to stave off a slump in sales between mid-June and mid-August. Volume is now back to normal and Rusli is still confident of posting net earnings of Rps 200 billion for 1994, up from Rps 138 billion in 1993.

Analysts attribute much of Indofood's success to competitive prices, a pervasive distribution system and, most importantly, the introduction of regional flavours designed to tickle the tastebuds of the many different ethnic groups that make up the Indonesian archipelago. The Sumatrans, for example, like their noodles a little spicy. The Central Javanese prefer something sweeter. And the chicken soup in Kalimantan has a flavour all of its own.

Not a company to rest on its laurels, Indofood is now looking to market cup noodles for picnickers and executives on the run, and higher value-added noodles for more-affluent families who add their own ingredients.

Freeport Indonesia remained the natural choice for the company with the best long-term outlook, in large part because of its history as Indonesia's first large foreign investment company and . . . well, because mining demands a lot of forward thinking. So instead of just feasting on the rich copper and gold deposits around its Tembagapura mining site, Freeport has spent US$75 million in the past two years scouring the rest of Irian Jaya's Central Highlands looking for more.

One reason for the unusual amount of activity is that on December 31 the company will have to relinquish 25% of its 6.5 million-hectare contract-of-work area. Executive Vice-President Paul Murphy says Freeport has been concentrating on a so-called condemnation programme to narrow down prospective sites.

Looking ahead also means redeploying assets. As part of a "privatisation" programme, Freeport can count on US$100 million from the sale of its port to the P&O Group and another US$200 million from Flour Daniel and an Indonesian partner for the firm's power-generation facilities. It is also selling a hotel, shopping centres and its fleet of aircraft to Indonesian investors, bringing the total injection of funds to about US$600-700 million.

Bank Central Asia, another branch of the Salim tree, got the most votes for financial soundness for the second year running, followed by state-run **Bank Negara Indonesia** and a second Salim affiliate, **Indocement**. The country's top private bank and sixth-biggest overall, BCA's success has a well-connected team of experienced professional managers.

BCA reported pre-tax profits of Rps 100.2 billion in 1993 on revenue of Rps 2.18 trillion, down slightly from 1992. New loans issued in the first six months of 1994 amounted to Rps 10.9 billion, more than for all of 1993. That's in keeping with a trend that has seen private banks taking up the slack from newly cautious state institutions over the past 18 months.

Also on the banking front, there were two newcomers to the REVIEW 200 list in 1994: No. 8 **Bank Bali**, a favourite of foreign fund managers, and No. 9 **Bank Niaga**. The latter also took the fifth spot as a company with long-term vision. ■

HIGH QUALITY SERVICES/PRODUCTS

'94	('93)	
1	(1)	Toyota Astra Motor
2	(5)	Asahimas Flat Glass
3	(2)	United Tractors
4	(N.A.)	Kalbe Farma
5	(4)	Indosat

INNOVATIVE IN RESPONDING TO CUSTOMER NEEDS

'94	('93)	
1	(3)	Indofood
2	(1)	Toyota Astra Motor
3	(N.A.)	Bank Bali
4	(7)	Indosat
5	(5)	Matahari Putra Prima

LONG-TERM VISION

'94	('93)	
1	(1)	Freeport Indonesia
2	(2)	Astra International
3	(4)	Indosat
4	(11)	Barito Pacific Timber
5	(N.A.)	Bank Niaga

FINANCIAL SOUNDNESS

'94	('93)	
1	(1)	Bank Central Asia
2	(2)	Bank Negara Indonesia
3	(8)	Indocement Group
4	(4)	Bank Ekspor-Impor Indonesia
5	(10)	Barito Pacific Timber

COMPANIES THAT OTHERS TRY TO EMULATE

'94	('93)	
1	(2)	Astra International
2	(1)	Toyota Astra Motor
3	(6)	Indosat
4	(3)	Gudang Garam
5	(12)	Indofood

OVERALL LEADERSHIP

1 —— Ranking scale —— 7

	'94 ('93)	
Sony	1 (1)	6.10
Toyota Motor	2 (2)	6.07
Nintendo	3 (3)	5.82
Canon	4 (6)	5.77
Honda Motor	5 (4)	5.64
NEC	6 (8)	5.44
Sharp	7 (14)	5.43
Matsushita Electric Industrial	8 (7)	5.42
Mitsubishi Corp.	9 (5)	5.37
Hitachi	10 (11)	5.28

SONY

Sony President Norio Ohga.

They like their Sony.

This Picture Is Fuzzy

By Charles Smith

Life has been looking up on most fronts for Japanese companies during 1994. Profits of the nation's 600 leading firms rose an estimated 4.5% during the first half of the current fiscal year, following three years of consecutive declines.

And 1995 should be better. Indeed, many Japanese economists suggest that the country is finally emerging — chastened but not much the worse for wear — from the deepest recession since the slump of the early 1970s.

It's perhaps ironic, then, that the Japanese company rated first for overall leadership in the REVIEW 200 should be one that has experienced some uncharacteristic problems: **Sony**, which also came first in the 1993 listings. In October, the company reported a consolidated second-quarter loss of ¥280 billion (US$2.8 billion), caused by a massive write-off of goodwill in its United States subsidiary, Sony Pictures Entertainment.

The write-off followed reports of a sharp fall in Sony Pictures' share of American box-office takings in 1993 and was accompanied by news that the subsidiary had chalked up big operating losses in the first half of the current fiscal year. Sony bought the former Columbia Pictures Entertainment in 1989 for US$4.8 billion. The company fared well until 1993, when it produced a series of box-office failures, including the heavily budgeted "Last Action Hero."

Sony's unexpected move produced a "sell" recommendation from at least one Tokyo-based analyst and a sprinkling of stories in the media questioning the judgment of Sony's top management. Sony's "standing in the investment community cannot but be damaged by the clumsy way shareholders were told of the write-off," says David Benda, electronics analyst for Barclays de Zoete Wedd Securities.

Worse, suggested Benda, Sony might have decided on the write-off as a means of avoiding an embarrassing revision of its financial forecasts for all of 1994. "That would have involved a lot of detailed explaining that Sony might not have been prepared to undertake," he says.

Investor confidence was further shaken after Sony co-founder Akio Morita announced his resignation as chairman only days after the release of the company's second-quarter results. But Morita's successors moved quickly to repair the damage. The retirement had nothing to with the write-off of goodwill by Sony Pictures, says Managing Director Nobuyuki Idei.

It was dictated by Morita's own feeling that, after undergoing surgery for a cerebral haemorrhage in autumn 1993, he was no longer physically capable of presiding over board meetings. As for the write-off, Idei describes it as "a unique and bold decision" that would help lay the foundations for a solid recovery of Sony's embattled American movie subsidiary.

The Sony Pictures' affair certainly didn't indicate that any of Sony's core businesses were in trouble. Nor did it suggest that President Norio Ohga, Morita's replacement as chief executive officer, was in less than full control. What the mishap did show was that Sony continues to take risks in its quest for a business strategy that straddles some time-honoured — and seldom

crossed — frontiers in the Japanese business world. Sony was the first Japanese electronics company to invest in the U.S. movie business.

Similarly, say analysts, Sony was among the first to grasp that success in the consumer-electronics market will depend on how far a company can bridge the gap between software and hardware.

Sony's traditional strength lies in audio and visual hardware — still the staples of its highly successful parent-company operation. But it's becoming harder and harder to distinguish between those sectors of Sony's business and the newer software aspects, says Idei. That's one reason why conventional audio devices like the Walkman — which became a symbol of Sony's success in the 1980s — may not hold the key to progress in the second half of the 1990s.

What will matter instead will be digitalisation of the whole field of audio-visual hardware and the development of multiple applications for software. "Movies and television were enemies at one stage, but now the two industries jointly power our picture business," says Idei. "In future, we'll also be using concepts developed for the movies to produce computer games." On a more ambitious plane, the next decade will see Sony parlaying its strength in audio-visual products into the new world of multimedia.

Sony's vision of a borderless audio-visual-multimedia market is parallelled by an enthusiasm for leaping national frontiers that derives from the philosophy of co-founder Morita. His slogan, "Think globally, act locally," led the company to start building production facilities in Europe and the U.S. at the start of the 1970s, well before most other Japanese companies took the plunge. Localisation of top management has been another Sony first. Michael Schulhof, the head of Sony Corp. of America, is an American with 20 years' experience within the group who serves on Sony's main board.

But Asia has lagged behind. "One of our next big challenges," says Idei, "is to put Asians into the top management positions, the way we do Americans and Europeans." A problem here is that shortages of skilled people in countries like Singapore and Malaysia make it hard to keep managers in place once they've been hired.

Management stability, leading to closely meshed human relationships, is a key to the kind of internationalisation that Sony has in mind. "It'll be harder to do in Asia than in Europe or the U.S.," Idei says. "But we're working on it. By the third generation [of managers] since we moved into countries like Singapore and Malaysia, we should be fully Asianised."

Sony's borderless approach is one reason why foreigners have always loved the company. That's not necessarily the case with **Sharp**, an Osaka-based electronics maker that moved into the Japanese top 10 this year. Sharp, ranked seventh, used to be seen as little brother of Osaka-based consumer-electronics giant **Matsushita**, which came in at No. 8 in overall leadership.

Today, Sharp is known for a range of ground-breaking new electronics products that have made even Sony look like a follower in some market sectors. Most notable is the company's Viewcam camcorder. It has sold more than 1.6 million units worldwide, largely because users love its liquid crystal display screen — a big improvement on the traditional viewfinder.

Sharp's technological prowess continues a tradition that began decades ago. The company made Japan's first vacuum-tube radio in the 1920s and its first transistorised desktop calculator in the 1960s. What is new is that product innovation put Sharp in the front ranks of Japanese electronics makers during the past three years, at least in terms of profitability.

In the year to March 1994, Sharp was one of only two companies in the industry to record a profit rise; consolidated net income increased 7.4% to ¥31 billion. The first half of the current fiscal year looked even better. Consolidated net profit surged 36% to ¥18.7 billion.

Sharp will have to keep running hard to keep its position on the cutting edge of the industry, says Peter Rawle, senior electronics analyst at Smith New Court in Tokyo. But the omens are good. Sharp's special strength in LCD technology should pay off as more and more new applications are developed.

In the first half of 1994, the company unveiled a succession of new LCD-based products including a new version of the Viewcam, which allows transmission and reception of still pictures by telephone. It also introduced a wide-screen TV that allows viewers to display news and weather reports while watching a TV programme. With products like those, it's not surprising Sharp has found ways to beat both the high yen and the four-year slump in domestic Japanese demand for consumer-electronics products. ■

HIGH QUALITY SERVICES/PRODUCTS

'94	('93)	
1	(1)	**Sony**
2	(2)	**Canon**
3	(3)	**Honda Motor**
4	(4)	**Toyota Motor**
5	(5)	**NEC**

INNOVATIVE IN RESPONDING TO CUSTOMER NEEDS

'94	('93)	
1	(N.A.)	**Sega Enterprises**
2	(1)	**Nintendo**
3	(3)	**Canon**
4	(5)	**Sharp**
5	(4)	**Honda Motor**

LONG-TERM VISION

'94	('93)	
1	(3)	**Mitsubishi Corp.**
2	(2)	**Mitsui & Co.**
3	(1)	**Sony**
4	(11)	**Toyota Motor**
5	(14)	**Itochu Corp.**

FINANCIAL SOUNDNESS

'94	('93)	
1	(2)	**Dai-Ichi Kangyo Bank**
2	(7)	**Industrial Bank of Japan**
3	(1)	**Toyota Motor**
4	(4)	**Bank of Tokyo**
5	(3)	**Mitsubishi Corp.**

COMPANIES THAT OTHERS TRY TO EMULATE

'94	('93)	
1	(3)	**Toyota Motor**
2	(4)	**Nintendo**
3	(1)	**Sony**
4	(8)	**Nomura Securities**
5	(11)	**Canon**

OVERALL LEADERSHIP

1 —— Ranking scale —— 7

'94 ('93)		
1	(2)	5.88
Genting		
2	(4)	5.87
Maybank		
3	(1)	5.61
Sime Darby		
4	(5)	5.31
Petronas		
5	(8)	5.31
Hong Leong Group		
6	(7)	5.17
Eon		
7	(3)	5.11
Proton		
8	(12)	5.06
Arab-Malaysian Merchant Bank		
9	(6)	4.89
Telekom Malaysia		
10	(15)	4.88
Rashid Hussain Bhd.		

Genting Chairman Lim Goh Tong.

'Wholesome family entertainment' at Genting Highlands Resort.

Gambling on Success

By S. Jayasankaran

Visitors to the gambling firm are usually steered into meeting rooms on the 28th floor of the plush Genting Building in downtown Kuala Lumpur. There are lots of these rooms, tastefully utilitarian in leather and glass, and all scream the company's standing in Malaysia. The reason: numerous awards, plaques and merit certificates are displayed prominently everywhere.

Add one more. In the REVIEW 200 survey, **Genting** emerged as the country's leading company. Surprising? Not really. "The key to Genting is its excellent management, especially in operations," says Teo Kok Lin, research head at James Capel Securities. "At any given moment, they know their cash flows down to the last decimal point."

Quite. The survey's respondents ranked the company No. 1 for financial soundness and also scored it heavily in two other categories: long-term management vision and as a company that others try to emulate.

The statistics agree. In 1993, Genting, capitalised at over M$16 billion (US$6.3 billion), racked up pre-tax profits of M$959 million on annual sales of over M$2 billion. Analysts expect 1994 profits to surpass the magic M$1 billion mark. It won't be hard. The company's half-year profits were over M$564 million.

Genting derives more than 80% of its revenues from gambling, primarily through Malaysia's only casino. It's located on the famous Genting Highlands, 25 kilometres northeast of Kuala Lumpur. Although the country's official religion is Islam, which prohibits gambling, Malaysia has legitimised gambling, the better to regulate and tax a lucrative industry.

Outsiders unfamiliar with Malaysia might think Genting's position is tenuous. Its gambling licence has to be renewed every three months. But local analysts who track the gambling sector point out that the company is easily one of the country's top five taxpayers. It is also a huge foreign-exchange earner; many visitors to the Highlands are from neighbouring countries.

They don't just come to gamble, either. Since 1990, the company has lavished more than M$800 million on the Highlands building hotels, a golf course, theme parks, a monorail. It's all what a senior Genting executive describes as "wholesome family entertainment." And the company isn't stopping there. By 1996, says the executive, "We would have spent M$1.2 billion on the Highlands." It seems to be working: the bulk of visitors to the Highlands are ethnic Malays who, being Muslim, aren't allowed to gamble at the casino.

Over the past few years, the company has begun using part of its huge cash reserves — estimated at over M$1.5 billion at the end of 1992 — to diversify out of gambling. Its executive chairman and driving force, Tan Sri Lim Goh Tong, 76, is said to have a philosophy that eschews borrowings. Last year, the company set up Malaysia's largest paper mill and took up a 40% stake in a 720-megawatt independent power plant that is slated for completion in mid-1996. Total cost: M$800 million.

In addition, Genting's listed plantation company, Asiatic Development, has begun turning its attention to property development. With more than

50,000 acres of mainly oil-palm plantation in Peninsular Malaysia, the company has slated 9,000 acres for development. Some land banks are in choice areas. Example: The company has 1,000 acres in Sepang, in central Selangor state and near the site of an international airport.

But the property projects are for the medium term, and Asiatic's annual profits, at around M$40 million, are relatively small. The company hopes to boost that by targeting overseas markets as well as moving into manufacturing. Asiatic has begun making neo-pneumatic tyre segments in Malaysia. In June 1993, it entered into a M$50 million joint venture in China's Guangdong province to build an oil-palm refinery and oleochemical operations.

Genting has always taken its time doing things. In the early 1990s, for instance, it was often accused of being a sleeping giant, an allusion to its vast and under-utilised cash hoard. Now that it has begun moving, most critics have been silenced. "Our chairman's philosophy has always been: Concentrate on what you know best," says the company executive. "So we have been careful. We get offered lots of deals. But we shouldn't be looking at every small project that comes along. Instead, we concentrate on a few substantial, strategic investments. This takes time."

Ironically, a perception of sluggishness may have been what dropped last year's overall winner, **Sime Darby**, into the No. 3 position in this year's survey. Probably Malaysia's only fully fledged multinational, the former British plantation company boasts annual sales of over M$7 billion. And its new chief executive, Nik Mohamed Nik Yaacob, is widely respected. But Sime continues to be dogged by perceptions that it is slow and ultra-conservative. Analysts note that its share price underperformed the composite index during 1993's superbull run and chalk it up to the fact that Sime does not excite local investors.

That cannot be said about the **Hong Leong Group**, a diversified conglomerate that moved up to the No. 5 spot from No. 8 previously. Dubbed a Malaysian "hong" by Phileo Peregrine Securities, Hong Leong has constantly been in the forefront of investor interest, not least because of public fascination with its chieftain, the reclusive Tan Sri Quek Leng Chan.

With 12 listed companies involved in a slew of activities from manufacturing to banking, Quek is said to be extremely aggressive and highly demanding of his managers. The result has been a tight ship with constantly rising profits. In addition, he is extremely well-connected. In late 1993, for example, he bought a bank from its longtime owners, Malayan United Industries Group, and took it public in less than a year. MUI, for its part, had been trying to get it listed for years.

Another new entrant to this year's list is **Arab-Malaysian Merchant Bank Holdings**, controlled by ethnic Malay millionaire Tan Sri Azman Hashim. The group has always had an excellent reputation of being a bank run by competent professionals, but its value was enhanced early in 1994 after Azman added a commercial bank to its stable. The institution: the former Security Pacific Bank, which the group bought for M$285 million and renamed Arab-Malaysian Bank. Analysts are now betting that the group could emerge as Malaysia's next financial giant.

The giant-in-residence is **Malayan Banking**, known as Maybank. It was ranked second by survey respondents, up from fourth previously. Indeed, the bank emerged tops as a company that others try to emulate and it isn't surprising. Malaysia's largest bank, Maybank is valued at more than M$19 billion and made over M$1 billion in pre-tax profits for its current financial year. That was a first by any bank in Malaysia. It is also one of the few local banks that has begun expanding regionally.

Rashid Hussain Bhd. was the other new entry into the overall list, rounding out the top 10. A stockbroking-dominated banking group, it is controlled by Kuala Lumpur's hottest deal maker, Tan Sri Rashid Hussain who, by industry standards, did everything backwards. He built up a stockbroking company first, got it listed and then used it to acquire Development & Commercial Bank, the country's fifth-largest.

That has earned him a firm institutional following and steady earnings instead of cyclical fluctuations common to other brokerages. RHB made M$309 million in pre-tax profits in 1993, up from M$68 million in 1991.

The tycoon has largely concentrated on what he knows best — finance — and has devoted his time to building RHB into a full-service financial group. "In the end, I'm a great believer in being conservative," he says. "The sky is never the limit and no one can fight market forces." ■

HIGH QUALITY SERVICES/PRODUCTS

'94	('93)	
1	(9)	UMW Toyota Motor
2	(1)	Malaysia Airlines
3	(11)	Malayan Cement
4	(6)	Proton
5	(2)	New Straits Times Press

INNOVATIVE IN RESPONDING TO CUSTOMER NEEDS

'94	('93)	
1	(1)	Uniphone
2	(7)	New Straits Times Press
3	(5)	Arab-Malaysian Merchant Bank
4	(2)	Proton
5	(13)	UMW Toyota Motor

LONG-TERM VISION

'94	('93)	
1	(2)	Hong Leong Group
2	(1)	Sime Darby
3	(N.A.)	YTL Corp.
4	(7)	Arab-Malaysian Merchant Bank
5	(3)	Genting

FINANCIAL SOUNDNESS

'94	('93)	
1	(4)	Genting
2	(1)	Maybank
3	(5)	Petronas
4	(6)	Sime Darby
5	(3)	Magnum

COMPANIES THAT OTHERS TRY TO EMULATE

'94	('93)	
1	(2)	Maybank
2	(1)	Sime Darby
3	(7)	Genting
4	(4)	Rashid Hussain Bhd.
5	(3)	Hong Leong Group

OVERALL LEADERSHIP

1 —— Ranking scale —— 7

'94 ('93)		
1	(1)	6.55
San Miguel		
2	(4)	6.01
Jollibee Foods		
3	(2)	5.96
Ayala Corp.		
4	(3)	5.96
ShoeMart		
5	(6)	5.93
ABS-CBN Broadcasting		
6	(5)	5.65
Bank of the Philippine Islands		
7	(7)	5.24
Purefoods		
8	(15)	5.11
PCI Bank		
9	(8)	5.10
A. Soriano Corp.		
10	(13)	5.03
RFM		

ROMEO GACAD/AFP

San Miguel Chairman Andres Soriano III.

VERONICA GARBUTT

Building a 'formidable presence.'

Watch Out, Asia

By Rigoberto Tiglao

Still No. 1. **San Miguel** this year continues its domination of the REVIEW 200 list, taking the top position overall, and the slots for high-quality products and company that others try to emulate.

"World-class performance in Asia," San Miguel Chairman Andres Soriano III terms the company's ambition. Indeed, the country's largest non-energy company in the past five years is emerging as the Philippines' corporate vanguard in cross-border investments.

Just two years after it was set up, San Miguel's joint-venture brewery in Guangzhou, China, started to expand its facilities, with San Miguel becoming the largest-selling foreign beer brand in southern China. Another beer-brewing joint venture in Shunde, also in Guangdong province, was set up. To upgrade its Hong Kong operations, San Miguel sold its present plant site in the colony; a new state-of-the-art brewery will be built in an industrial estate within two years. Thus, San Miguel in a short time has set up a beach-head in what observers say will be the biggest beer market in the world: China.

San Miguel also has moved fast into Asean countries. Its Indonesian operations through P.T. Delta Djakarta have increased their production capacity. Moreover, its joint venture with Vinagen Brewery in Nha Trang, Vietnam, started brewing San Miguel-brand beer in 1993.

And it's not only beer that San Miguel is internationalising. A second overseas ice-cream joint venture started operations in 1994 in Guam, while a shrimp-feed project is operating in Fujian, China. In the pipeline are projects for manufacturing bottle crowns and plastic crates in China, plastic crates in Indonesia and collapsible aluminium tubes in Vietnam.

Watch out for San Miguel in Asia. As Soriano points out: "Asia is our home. We see this region as a high-opportunity area, and we intend to build a formidable presence in it."

San Miguel's local operations have not fallen behind at all, and the company has kept up its pace of expanding its facilities. The company's modernisation of its main breweries as well as the construction of soft-drinks and liquor plants anticipated the start of a major expansion in consumer demand as the economy recovered.

For the first nine months of 1994, revenue totalled P48.9 billion (US$2 billion), 12% higher than a year earlier. A major beer brewery is being constructed in Davao del Sur in southern Mindanao island. That's a significant management decision, as it reflects the company's view that the country's economic growth will not be confined to the main island of Luzon.

San Miguel's Coca-Cola Bottlers subsidiary expanded and upgraded its old plants and finished construction of its 20th bottling plant. Another subsidiary, La Tondena Distillers, is building a new facility. The company's joint venture with the Swiss Nestle, Magnolia Nestle, has earmarked a P1.1 billion modernisation programme, and has started regaining ground lost the past two years to a new competitor in the ice-cream industry.

For a company that is the largest private enterprise in the country, San

Miguel has demonstrated a remarkable ability to undertake quick strategic moves to take advantage of growing markets.

A company that is an infant compared to San Miguel took the No. 2 position in overall leadership and the No. 1 slot in being innovative in responding to consumer needs: hamburger food chain **Jollibee Foods**. It was set up only in 1978 as a mom-and-pop ice-cream parlour but is now the largest fast-food chain, with 132 outlets in the country.

Jollibee has accurately read not only Filipinos' preference for slightly sweetish hamburger but also the country's erstwhile untapped lower-income market. It has expanded the food it offers, such as the local version of a noodle dish.

Jollibee now has a 50% share of the fast-food market and 67% of the hamburger market, beating the American McDonald's and Wendy's. Jollibee has shown that its expertise is not only in marketing. It's the first, and the only, food store that listed its shares in the stockmarket, in 1993. That was even ahead of the slew of family-owned enterprises that realised that cheaper funds could be raised through the bourse.

Jollibee is expanding out of the hamburger market, purchasing a pizza-parlour chain in 1993. Like San Miguel, Jollibee is now looking to Asia. It's already got three franchise stores in Brunei, two in Indonesia, and one in Guam.

Ayala Corp., the country's premier property conglomerate, was judged No. 3 overall and No. 1 in long-term vision. Its main property subsidiary, Ayala Land, last year announced a plan to set up what it sees as the next business district: a 1,300-hectare property in Canlubang south of Manila. In the past two years, Ayala Land has quietly gone on a massive land-bank build-up, now totalling 2,378 hectares nationwide.

Two other Ayala subsidiaries scored well in the REVIEW 200 rosters. **Bank of the Philippine Islands** ranked No. 6 overall and No. 1 in financial soundness; it has been dominant in both retail and corporate banking. No. 7 **Purefoods**, the country's largest meat and poultry processor, has been innovative in introducing new food products Filipinos are fond of.

Ranking No. 4 overall and figuring in most of the other REVIEW 200 lists was the mall-chain **ShoeMart**. In just a decade, the company has changed Filipinos' buying patterns — to one centring on one-stop malls. ShoeMart, though, hasn't functioned merely as a huge department store. It has practically served like a huge trading company, supporting small manufacturers by giving them a ready retailing outlet in malls.

A newcomer to the REVIEW 200 list was **Philippine Commercial International Bank**, which ranked No. 8. A laid-back bank in the 1970s and early 1980s, PCIB was acquired by tycoons John Gokongwei and Eugenio Lopez in 1987. Since then, it has become one of the fastest-growing and aggressive banks in the country and is now ranked fifth in assets in the banking industry. It also took the No. 5 position for financial soundness.

Another newcomer to the REVIEW 200 list is food conglomerate **RFM Corp.**, ranking 10th overall and fourth in high-quality services. Minus the beer, RFM is a San Miguel in the making.

In fact, it has been chipping away at areas in which San Miguel has had a near-monopoly: ice-cream and soft-drinks. For decades it was a conservative, family-run firm. But under the leadership of 36-year-old Chief Executive Officer Jose Concepcion III (son of founder Jose), RFM has become an aggressive company. It has bought an ice-cream operation and a soft-drink enterprise; both have been reinvigorated to give its San Miguel-owned rivals a scare.

RFM has also been aggressive in its financial moves. A watershed was in 1990, when the clan-controlled enterprise listed its shares on the stockmarket. It then spun off its divisions into separate companies, three of which also listed their shares.

Philippine Long Distance Telephone failed to make the REVIEW 200, coming in at No. 14 on the overall list. But it made progress as a company with long-term vision, moving up to No. 5 from No. 14 a year earlier.

PLDT has effectively adjusted to the new liberalised telecoms regime opened to competitors in 1991. Battered by critics for the huge unserved demand, PLDT has been whipped into shape, and is undertaking a P170 billion, 10-year programme to add 3.8 million new lines.

Another company showing substantial progress was **Philippine Automotive Manufacturing**, which was ranked No. 5 for the quality of its products, up from No. 13 a year before. It is owned by the Japanese Mitsubishi Motors and Nissho-Iwai and assembles Mitsubishi vehicles in the Philippines. ■

HIGH QUALITY SERVICES/PRODUCTS

'94	('93)	
1	(1)	**San Miguel**
2	(3)	**Purefoods**
3	(2)	**Jollibee Foods**
4	(9)	**RFM**
5	(13)	**Philippines Automotive**

INNOVATIVE IN RESPONDING TO CUSTOMER NEEDS

'94	('93)	
1	(1)	**Jollibee Foods**
2	(4)	**ABS-CBN Broadcasting**
3	(2)	**ShoeMart**
4	(3)	**San Miguel**
5	(5)	**Purefoods**

LONG-TERM VISION

'94	('93)	
1	(1)	**Ayala Corp.**
2	(2)	**San Miguel**
3	(3)	**A. Soriano Corp.**
4	(4)	**ShoeMart**
5	(14)	**PLDT**

FINANCIAL SOUNDNESS

'94	('93)	
1	(1)	**Bank of the Philippine Islands**
2	(5)	**Philippine National Bank**
3	(2)	**Ayala Corp.**
4	(6)	**Far East Bank & Trust**
5	(9)	**PCI Bank**

COMPANIES THAT OTHERS TRY TO EMULATE

'94	('93)	
1	(1)	**San Miguel**
2	(4)	**Jollibee Foods**
3	(2)	**ShoeMart**
4	(5)	**ABS-CBN Broadcasting**
5	(3)	**Ayala Corp.**

OVERALL LEADERSHIP

1 — Ranking scale — 7

'94 ('93)		
1	(1)	6.52
Singapore Airlines		
2	(2)	5.93
Singapore Telecom		
3	(5)	5.73
Development Bank of Singapore		
4	(9)	5.64
United Overseas Bank		
5	(6)	5.63
Oversea-Chinese Banking Corp.		
6	(18)	5.56
Creative Technology		
7	(4)	5.40
Singapore Press Holdings		
8	(13)	5.39
Keppel Corp.		
9	(8)	5.26
Singapore MRT		
10	(7)	5.22
Fraser & Neave		

R. IAN LLOYD/THE STOCK HOUSE

SIA Managing Director Cheong Choong Kong.

Asia's best-loved airline.

Right Place, Right Time

By Gary Silverman

When it comes to natural resources, Singapore has its problems. The population is small, land is lacking and infertile and the supply of fresh water is insufficient. But the city-state has been blessed with one great natural advantage: its position.

With a commanding view of the Strait of Malacca — the shortest link between the Indian Ocean and the South China Sea — Singapore is at a crossroads of world trade. And it has taken advantage of its strategic location — and deep-water harbour — to become a world leader in shipping, transportation, petroleum refining and financial services.

If there is anything that unites the REVIEW 200's top five Singaporean companies, it is that they are similarly well-positioned. The demand for air travel, telecommunication services and capital is growing in Asia. And Singapore's top five — **Singapore Airlines**, followed by **Singapore Telecom**, **Development Bank of Singapore**, **United Overseas Bank** and **Oversea-Chinese Banking Corp** — stand ready to respond.

"You know that in the longer term, the region is going to need these services," says Yang Sy Jian, head of economic research at Kay Hian James Capel in Singapore. "And for the entire list of companies, you are looking at balance sheets that are extremely strong. There is little possibility of financial difficulties. Rather, for some of them, it is a question of where to put the excess."

In this regard, it's not surprising that the top three banks all gained ground, with DBS climbing to third place from fifth, UOB to fourth from ninth and OCBC to fifth from sixth. Singapore's conservatively run banks are among the best-capitalised in the world — and regional needs for capital are growing. On one hand, Singaporean companies are looking to finance overseas expansion. On the other, Asia is looking for about US$1 trillion for infrastructure by decade's end, says the Asian Development Bank.

"Singaporean banks are more able to build their assets than their competitors," says John Engle, an investment analyst with HG Asia in Singapore. "The business is there and will be there. Their competitive position is very good."

Wan Ismail, banking analyst with CS First Boston in Hong Kong, says the Singapore banks have been more aggressive in seeking regional opportunities since 1991, when Japanese and Western banks began shifting away from overseas markets because of red ink on their books.

"If you look at the numbers, especially the loan-syndication figures, they have actually picked up to a certain extent where the Japanese banks left off," Wan says. "Obviously, the Singapore banks are just a drop in the ocean compared with the Japanese banks, but I think they are doing pretty well overseas."

At home, analysts also like the banks' chances of fending off foreign competitors. "A lot of foreign companies will find it extremely costly to enter this market because they will have to set up branch networks," says Yang of Kay Hian James Capel. "The

local banks have a certain edge because they have already established a good network."

Overseas, the best market for the Singaporean banks has been Malaysia, but the spoils have not be shared equally. UOB, OCBC and Overseas Union Bank, which finished 11th in the REVIEW survey, all have branches in Singapore's booming neighbour to the north, and UOB earns 15% of its profits from Malaysia, according to CS First Boston. UOB has even discussed listing its Chung Khiaw Bank (Malaysia) subsidiary on the Kuala Lumpur Stock Exchange.

However, government-controlled DBS, the largest of the banks in terms of assets, had been shut out of the Malaysian banking market. It began catching up in September, when it announced that it had received approval to open a representative office in Kuala Lumpur.

Singapore Telecom's push overseas has been largely overshadowed this year by the continuing controversy over its share price. Since its listing during the bull-market frenzy of late 1993, Singapore Telecom has traded at such high price-earnings multiples that many brokerages have recommended that their clients sell the stock.

But Lim Cher Kwang of Jardine Fleming in Singapore says, "Fundamentally, there is nothing wrong with this company." In particular, Lim calls attention to the S$400 million (US$272 million) that Singapore Telecom has poured into projects in Thailand, the Philippines, Sri Lanka, Mauritius, Britain and Norway. Losses from the overseas operations climbed to S$20 million in the six months ending in September, but Lim says that's encouraging, considering the costs of start-up telecommunications ventures. "That shows their ability to control costs," he says.

And like the banks, Singapore Telecom is in a good position to take advantage of regional opportunities. "If China's telecom market liberalises, they might be in for some good things there," says Lim. "The Chinese have been seeking Singapore Telecom's expertise. That should give them some leverage over foreign competitors."

Singaporeans seem to agree with these upbeat assessments of Singapore Telecom. The company did well in most categories of leadership in the REVIEW 200 survey.

Meanwhile, first-place winner Singapore Airlines has suffered this year from circumstances beyond its control — in this case, a general downturn in the aviation industry and increasing price competition in Asia.

The company's reputation for meticulousness is legendary — its latest company report mentions that its first-class Japanese meals are served on authentic Japanese crockery. But even a premium service like SIA has been forced to cut fares this year, rattling the stockmarket.

"They are well-placed and well-managed, but I think there are structural changes in Asia that suggest we have two or three years of margin pressure," says Sheldon Kasowitz, an industry analyst with Jardine Fleming Securities in Hong Kong. "If you are more or less in a commodity industry, you are only as smart as your dumbest competitor."

But Engle of HG Asia believes a turnaround is imminent for SIA. "For the next six to nine months, this will be the best-performing stock on the Singapore stockmarket," he predicts. Engle says he expects increasing numbers of first-class and business-class travellers will produce the airline's first increase in yields in six years.

And again, Engle emphasises that Singapore Airlines is positioned to take advantage of what "could theoretically be explosive increases in travel in the region." Its fleet is among the newest of any major airline in the world — averaging a little more than five years in age — and its balance sheet shows piles of cash — a rarity in a beleaguered business. "That's a reflection of planning, getting the cycles right," says Engle.

SIA took the No. 1 spot in three of five categories: high-quality service, long-term vision and the company that others try to emulate. "They are really looking good," says Engle.

This year's survey put government-controlled companies in the top three slots. But one of the sharpest advances was registered by **Creative Technology**, a maker of computer sound boards that jumped to No. 6 from No. 18. It also came in first as being innovative in responding to customer needs and third as a company that others try to emulate.

Listed this year, Creative Technology has been portrayed as an example of home-grown innovation, and that struck a chord with survey respondents. "Creative Technology spends a lot on research and development and seems to be doing it fairly effectively," says Lim Kok Ann, manager of Southeast Asian equity research at Merrill Lynch in Singapore. ■

HIGH QUALITY SERVICES/PRODUCTS

'94	('93)	
1	(4)	Singapore Airlines
2	(5)	Asia Pacific Breweries
3	(2)	Singapore Telecom
4	(6)	Cycle & Carriage
5	(3)	Singapore MRT

INNOVATIVE IN RESPONDING TO CUSTOMER NEEDS

'94	('93)	
1	(3)	Creative Technology
2	(2)	Singapore Airlines
3	(1)	Singapore Telecom
4	(5)	United Overseas Bank
5	(7)	Metro Holdings

LONG-TERM VISION

'94	('93)	
1	(2)	Singapore Airlines
2	(5)	Keppel Corp.
3	(1)	Singapore Telecom
4	(6)	Sembawang Group
5	(13)	Neptune Orient Lines

FINANCIAL SOUNDNESS

'94	('93)	
1	(2)	Oversea-Chinese Banking Corp.
2	(4)	United Overseas Bank
3	(1)	Development Bank of Singapore
4	(N.A.)	Overseas Union Bank
5	(10)	Keppel Corp.

COMPANIES THAT OTHERS TRY TO EMULATE

'94	('93)	
1	(1)	Singapore Airlines
2	(3)	Singapore Telecom
3	(4)	Creative Technology
4	(7)	Development Bank of Singapore
5	(6)	Fraser & Neave

OVERALL LEADERSHIP

1 —— Ranking scale —— 7

'94 ('93)	
1 (2) Samsung Electronics	6.44
2 (1) Samsung Corp.	6.40
3 (3) Pohang Iron & Steel	6.36
4 (4) Hyundai Motor	6.21
5 (7) Hyundai Engineering & Construction	5.89
6 (5) Goldstar	5.82
7 (12) Samsung Life Insurance	5.78
8 (11) Korean Air Lines	5.69
9 (6) Hyundai Heavy Industries	5.68
10 (8) Yukong	5.62

SAMSUNG

Samsung Electronics Chief Executive Officer Kim Kwang Ho.

CHUNG TAE WON/REUTER

Showing off a Samsung camcorder.

Chips Ahoy

By Michael Newman

In the executive offices of **Samsung Electronics**, semiconductor chips sit on velvet under glass cases, like jewellery. The display is appropriate: for Samsung, the semiconductor chip is a precious commodity.

In 1993, Samsung had net sales of some US$10 billion. Its sales of semiconductors amounted to US$3.22 billion. In 1994, Samsung forecasts its total sales will grow a robust 40%, to US$14 billion, while semiconductor sales are expected to reach US$5.46 billion — a whopping 70% increase.

Profits look even better. While semiconductors comprise barely 40% of sales, they account for up to 80% of Samsung Electronics' profits, analysts say. And in 1994 first-half operating profits grew an astounding 408%, to US$355 million.

Analysts say revenue growth is fuelled by strong sales of computers and advanced software in the United States (Samsung's No. 1 export market) and the continued strength of the yen, which makes Samsung chips cheap compared to those of its Japanese competitors. Samsung executives prefer a more succinct explanation: quality.

"Samsung's high level of technology is appreciated in the global semiconductor industry," asserts Kim Kwang Ho, vice-chairman and chief executive officer of Samsung Electronics.

Samsung maintained that high level in 1994 by developing the world's first 256M DRAM semiconductor chip, the most powerful yet. It can store the equivalent of 2,000 newspaper-size pages of data, compared with 500 pages for the next most powerful chip, the 64M DRAM. (Samsung was also the first to develop the 64M DRAM chip.)

The payoff for such R&D is years down the road; a market for the 256M DRAM chip doesn't even exist yet, while the market for the 64M DRAM chip is just emerging. Samsung plans to step up production of its 64M DRAM chip in 1995.

But it is such technological expertise, combined with spectacular growth, that helps explain why Samsung Electronics is at the top of the REVIEW 200 survey. It displaced **Samsung Corp.**, which fell to No. 2.

Samsung Electronics executives also point to their vaunted management reforms, announced in June 1993 by Samsung Group Chairman Lee Kun Hee.

Lee's reforms affect not only Samsung Electronics and Samsung Corp., the trading unit of the group, but also the seventh-ranked Samsung Life Insurance.

In a 110-page booklet covering everything from sleeping habits to group management, Lee exhorts all Samsung employees to "rid ourselves of old habits, ways of thinking, and a focus on quantity over quality."

One result of the reforms, at Samsung Electronics at least, has been more days off. At its factory in Suwon, south of Seoul, employees work only on alternate Saturdays — but for a full day instead of just the traditional morning shift. "We found it wasn't very efficient working just four hours on a Saturday," says Kim Chang Hon, a senior Samsung Electronics executive.

Another aim of the reforms is to give group companies more freedom to manage themselves. Says Kim: "The autonomy of each company is well-pro-

tected — but on one condition: Each company must demonstrate that it is capable of exercising that autonomy."

That may sound like a contradiction: independence, but with strings attached. But Kim says that Samsung Electronics hasn't been reined in by the "secretariat," the nickname for the powerful executive staff of Samsung Corp.

In 1993, Samsung Electronics accounted for 56% of the group's capital expenditures, including US$1 billion for new facilities. And it developed the 256M DRAM chip "without ever depending on other Samsung companies for assistance," Kim says. "There was no intervention from the chairman's office."

Whether that will remain so in 1995 is the question of the moment, however. In early December, Samsung received government approval to enter the car-making business, a venture that will cost upwards of US$4 billion.

But cost is not the only worrisome factor; some analysts wonder whether the group is losing its focus. In October, Samsung announced a "restructuring," saying it would sell or merge several affiliates, slimming down to 24 companies from 50 in the process. It also trumpeted its new focus on four core business groups: electronics, chemicals, finance and engineering. Then it jettisoned that plan to add cars to the mix.

While he doesn't question the wisdom of the decision to enter the car industry, Samsung Electronics' Kim does acknowledge that it will probably drain capital from the firm.

But with semiconductor sales strong and expected to remain so in 1995, "there will be a lot of revenue coming in," says Kim. "It doesn't bother me to share some of it with the auto business."

Besides, he adds, in the long term, Samsung's new venture means more business for Samsung Electronics. "We plan to contribute to the group's auto business with the development and manufacture of components for the car," he says.

With its foray into the car business, Samsung will be competing even more directly with South Korea's largest conglomerate, Hyundai. In the last few years, the two groups have traded bragging rights as the country's largest *chaebol*, or conglomerate.

Hyundai counts four of its companies in the REVIEW 200 survey; No. 4 overall winner **Hyundai Motor** has replaced 1993 winner Samsung Electronics as the company with the highest-quality products. Three other Hyundai group companies also scored well in the survey: **Hyundai Engineering** placed No. 5 in the overall-leadership list, while **Hyundai Heavy Industries** came in at No. 9. **Hyundai Precision Industries** placed No. 5 in the long-term vision category. That represented a startling rise from the previous year's survey, when it ranked No. 23 in that category.

Indeed, the survey is dominated by the subsidiaries of the country's four biggest chaebol: Hyundai, Samsung, **Daewoo** and **Lucky-Goldstar**. Together they account for more than half the mentions for overall leadership in the top 10.

And while Samsung will soon challenge Hyundai on the road, it is already competing with the other two in the electronics market. Samsung Electronics, **Goldstar Co.** and Daewoo Electronics control the domestic market for colour TVs, videocassette recorders, refrigerators, washing machines and microwave ovens.

Goldstar Co. — the electronics arm of the Lucky-Goldstar group — took the lead in the domestic consumer electronics and appliance market. Goldstar ranked sixth in overall leadership and was rated highly in two other categories, high-quality products and innovativeness in responding to customer needs.

Goldstar's results have been spectacular. Sales for the first half of 1994 jumped 18% from a year earlier, to US$3 billion. Net profit for the same period soared 161%, to US$99 million.

And while Samsung plans to make cars and Hyundai wants to enter the steel business, neither Lucky-Goldstar nor Daewoo has announced any plans to leap into a new industry. Perhaps that helps explain why **Daewoo Corp.**, the trading arm of the group, ranks No. 1 in long-term vision, while **Daewoo Heavy Industries** takes the second spot. Both improved their rankings from the previous year's survey.

It is a sweet payoff for Daewoo Corp. and Daewoo Shipbuilding & Heavy Machinery, which merged with Daewoo Heavy Industries in October. The new conglomerate, known as DSHM, set a record in 1993 for the most orders received by a single shipyard in one year. That was quite an achievement, considering that Daewoo's shipbuilding business was on the brink of bankruptcy as recently as 1989.

DSHM is now the fourth-largest stock on the Korean Stock Exchange, behind Korea Electric Power, Samsung Electronics and Pohang Iron & Steel. ■

HIGH QUALITY SERVICES/PRODUCTS

'94	('93)	
1	(6)	Hyundai Motor
2	(3)	Goldstar
3	(1)	Samsung Electronics
4	(2)	Anam Industrial
5	(4)	Hankook Tire Manufacturing

INNOVATIVE IN RESPONDING TO CUSTOMER NEEDS

'94	('93)	
1	(N.A.)	Asiana Airlines
2	(2)	Shinhan Bank
3	(1)	Goldstar
4	(5)	Samsung Electronics
5	(N.A.)	Ssangyong Oil

LONG-TERM VISION

'94	('93)	
1	(3)	Daewoo Corp.
2	(7)	Daewoo Heavy Industries
3	(5)	Sunkyong Industries
4	(1)	Samsung Corp.
5	(23)	Hyundai Precision Industry

FINANCIAL SOUNDNESS

'94	('93)	
1	(1)	Korea Electric Power
2	(7)	Hanil Bank
3	(16)	Korea First Bank
4	(5)	Korea Long-Term Credit Bank
5	(8)	Honam Oil Refinery

COMPANIES THAT OTHERS TRY TO EMULATE

'94	('93)	
1	(5)	Samsung Corp.
2	(8)	Pohang Iron & Steel
3	(7)	Samsung Electronics
4	(1)	Hyundai Motor
5	(16)	Samsung Life Insurance

OVERALL LEADERSHIP

1 —— Ranking scale —— 7

'94 ('93)		
1 (1)	Formosa Plastics	6.15
2 (2)	Evergreen Marine	6.00
3 (6)	Acer	5.82
4 (3)	President Enterprises	5.66
5 (9)	EVA Airways	5.50
6 (4)	China Steel	5.25
7 (17)	Formosa Chemicals & Fibre	5.09
8 (5)	Taiwan Cement	5.04
9 (14)	Far Eastern Textile	5.02
10 (N.A.)	Taiwan Semiconductor	5.01

WEALTH MAGAZINE

Formosa Plastics Chairman Y.C. Wang.

FORMOSA PLASTICS

Formosa Plastics' fabrics and costume jewellery.

Formosa Forever

By Julian Baum

The most prestigious blue chips remained at the top of the Taiwan REVIEW 200 list this year, with **Formosa Plastics Corp.** leading the rankings for overall leadership as well as two of the five categories.

Industry observers say the company's standing is inseparable from that of the Formosa Plastics Group as a whole and from the reputation of the group's founder and chairman, Y.C. Wang.

The company certainly had a high profile during 1994. Construction got underway on its US$10 billion petrochemical complex at an industrial island off Taiwan's west coast. Widely considered the world's largest private investment, the complex will contain 37 plants, including a naphtha cracker and oil refinery, when it is completed in 1998. So far, some 300 hectares, or 15% of the site, have been reclaimed from the sea off Yunlin County in central Taiwan.

Formosa Chemicals & Fibre, also a core member of the group, moved sharply higher on the list this year to seventh place from 17th a year earlier. The company says that technical problems at its PTA plant in Ilan County were finally solved, allowing it to operate at a full capacity of 200,000 tonnes annually for the first time. PTA is a raw material for the manufacture of polyester fibres.

Despite large losses during the first three years of operation, the plant should recover its lost revenues quickly, officials say. The plant's full operation is a triumph of Taiwanese engineering. That's because the secretive technology for PTA production, closely held by Japanese and United States companies, was available only through a former East German firm and required extensive retooling in Taiwan.

Unlike many other Taiwanese conglomerates, Formosa Plastics' group companies continue to focus on their core businesses. Even the group's diversification into electronics components by Nan Ya Plastics is directly related to its key products and engineering expertise.

The energetic Y.C. Wang is perhaps the most admired Taiwanese industrialist. Business people point to his tight management style and long-term planning. They also admire his group's success at achieving worldwide rankings as either the No. 1 or No. 2 producer of key raw materials for the synthetic fibre and plastics industries.

"Our chairman won't slow down," a Formosa Plastics manager says about the 77-year-old Wang, whose long work hours and attention to detail are legendary among Taiwanese managers. "It seems he has no plans to retire."

Companies from the Evergreen Group continued their high ratings in the REVIEW survey, indicating their public image remains strong despite few dramatic new developments during the year. **Evergreen Marine** retained its No. 2 position for overall leadership, while **EVA Airways** moved up to the No. 5 spot from the previous year's No. 9 position.

Three-year-old EVA Airways retained its lead in high-quality services and innovation in responding to customer needs, and moved up the list in two other categories. It took the No. 3 position for long-term management

vision, up from the previous year's No. 4 spot. And it was voted No. 5 as a company that others try to emulate, an improvement from the previous year's No. 6 ranking.

EVA's performance is in sharp contrast to that of the national flag carrier, China Airlines. It dropped out of the REVIEW 200 this year, skidding to No. 27 in overall leadership from the No. 10 spot a year earlier. China Airlines suffered a tragic crash in Japan earlier in the year and a consequent sharp drop in revenues.

EVA began flying the domestic route between Taipei and Kaohsiung at mid-year and opened service to Fukuoka, Japan, beginning in December. It is still waiting for permission to land in Hong Kong and Tokyo. "Of course, we're waiting to fly to the Chinese mainland," comments an Evergreen manager, adding he can't predict when that'll happen.

Evergreen Marine, meanwhile, announced a major fleet expansion in early December with plans to purchase 10 new R-class vessels of 5,000 twenty-foot equivalent units for delivery by 1998. The company says that the overall expansion of its fleet size by 25 vessels in the six years beginning in 1992 will be unprecedented in the shipping industry.

Despite the sale earlier in the year of 10 vessels to Uniglory, a short-haul affiliate, revenues for Evergreen Marine in 1994 will modestly exceed the company's target, says a spokesman.

China Steel is the only state-owned company remaining in the top 10, as Taiwan Power, Chinese Petroleum, and China Airlines all lost favour during the year.

That's not surprising, say analysts. China Steel is regarded as the best managed and most competitive of all the major state-owned companies and expects to be privatised in 1995, when the share of government equity drops below 50%. It's also one of the few state-run companies competing in a deregulated market. Plans are underway for diversification into IC wafer production and petrochemicals in joint ventures with foreign partners.

Acer, Taiwan's leading computer company, has enjoyed spectacular growth in revenues this year and announced a major restructuring. As the only company in the top 10 identified internationally with brand-name retail products, Acer has strengthened its reputation as an innovative and forward-looking corporate group. It moved up to the No. 3 position on overall leadership from No. 6 a year earlier. It also improved in such categories as product quality, innovativeness in responding to customers, and long-term management vision.

Most of Acer's earnings for the year came from TI-Acer's IC chip-fabrication facility in Hsinchu, a joint venture with Texas Instruments of the U.S. On the retail side, local analysts say, Acer is highly competitive in peripheral equipment, such as monitors, keyboards and printers. But its personal-computer business still lags some of the multinationals.

"Because they've moved into the international market very aggressively and cut costs by setting up production bases overseas, they can compete very well in peripherals," says Logan Yeh, head of research at Nomura Securities Investment Advisory Co.

A prominent retailer at home in the food industry and an early investor in China, **President Enterprises** kept its high profile in the REVIEW 200, taking the No. 4 spot for overall leadership. It also improved its standing on the quality of its products, innovativeness in responding to customers and long-term management vision.

President recently sold a stake in its 7-Eleven convenience store subsidiary to foreign buyers and sold off the loss-making Independence Evening Post publishing company in the most controversial news-media deal of the year. Expansion of investments in food-processing plants in China has slowed, though the company is poised for a major market share in China by the end of the century.

And now it's getting into the power-generation business. In early December, President announced it would team up with a unit of Southern Co. of the U.S. to build a 1.2-million-kilowatt thermal plant. Taiwan faces power shortages and has encouraged private-sector companies to invest in the sector.

Far Eastern Textile moved into the top 10 in this year's survey, rising to the No. 9 spot in overall leadership from the previous year's No. 14 position. Analysts attribute Far Eastern Textile's improved performance to a 60% surge in cotton prices since last year and the overall recovery of the textile industry.

Taiwan Semiconductor made its debut in the REVIEW 200, rounding out the top 10. The company listed its shares on the Taipei stockmarket in September. High profitability and aggressive expansion make the company a favourite among securities analysts in an already overcrowded electronics sector. ■

HIGH QUALITY SERVICES/PRODUCTS

'94	('93)	
1	(1)	EVA Airways
2	(2)	Evergreen Marine
3	(4)	Acer
4	(5)	Formosa Plastics
5	(7)	President Enterprises

INNOVATIVE IN RESPONDING TO CUSTOMER NEEDS

'94	('93)	
1	(1)	EVA Airways
2	(3)	President Enterprises
3	(6)	Acer
4	(7)	Evergreen Marine
5	(15)	United Microelectronics

LONG-TERM VISION

'94	('93)	
1	(1)	Formosa Plastics
2	(3)	President Enterprises
3	(4)	EVA Airways
4	(5)	Acer
5	(2)	Evergreen Marine

FINANCIAL SOUNDNESS

'94	('93)	
1	(3)	Cathay Life Insurance
2	(2)	Hua Nan Commercial Bank
3	(1)	Formosa Plastics
4	(6)	International Commercial Bank
5	(4)	Taiwan Cement

COMPANIES THAT OTHERS TRY TO EMULATE

'94	('93)	
1	(1)	Formosa Plastics
2	(2)	President Enterprises
3	(4)	Evergreen Marine
4	(3)	Acer
5	(6)	EVA Airways

OVERALL LEADERSHIP

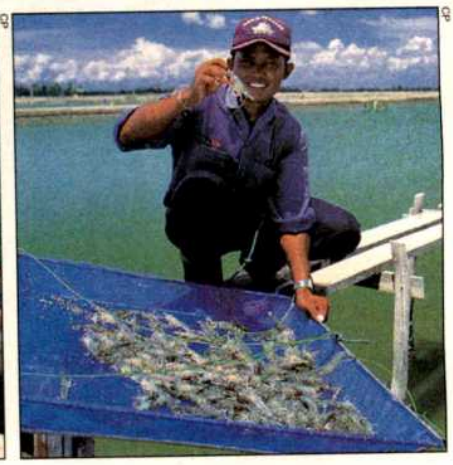
1 —— Ranking scale —— 7

'94 ('93)		
1 (2)	Charoen Pokphand Group	6.01
2 (1)	Bangkok Bank	5.87
3 (N.A.)	Siam Cement	5.79
4 (3)	Shinawatra Group	5.71
5 (4)	Siam Commercial Bank	5.48
6 (N.A.)	TelecomAsia	5.39
7 (7)	Petroleum Authority of Thailand	5.33
8 (5)	Dusit Thani	5.20
9 (9)	Thai Airways International	5.08
10 (N.A.)	Italian-Thai Development	5.08

CHINA EXECUTIVE

CP Chairman Dhanin Chearavanont.

CP



CP

CP's chickens and shrimps.

Everybody Needs It

By Michael Vatikiotis and Gordon Fairclough

Charoen Pokphand Group Executive Chairman Dhanin Chearavanont has a simple way of explaining the success of his sprawling multinational conglomerate: "Man cannot do without food. He also needs food for thought."

Here's some food for thought: CP was this year's No. 1 overall winner in the REVIEW 200 survey, moving up from the No. 2 position a year before. It maintained its top position for long-term management vision and improved its status as a company that others try to emulate, moving up to No. 1 from No. 3 a year earlier.

Comprising over 200 companies with estimated total assets of US$5 billion, the CP group is focusing increasingly on two main growth areas: telecoms and media. CP's traditional agri-businesses — producing food for both animal and human consumption — will continue to be a core activity, says Dhanin.

Playing a starring role in this area is the humble shrimp. "We are confident that our shrimp business is the largest in the world," boasts Dhanin. Indeed, Dhanin says that 80% of the Baht 12 billion (US$480 million) in revenue generated by CP Feedmill last year was derived from shrimp farming. Key areas for overseas expansion in this area will be Indonesia and India.

The bulk of CP's overseas investment has focused on China, where the group now has 60 animal-feed factories. Dhanin is reluctant to divulge the value of his investment there: "Our operations are a mix of private and public companies, so it is difficult to disclose," he says. But other areas are catching up. Dhanin expects his Avian poultry-breeding business in the United States to propel the group's American investment into pole position behind China.

CP's approach to markets is based on size, rather than location. Although CP is anchored to Thailand and Southeast Asia by tradition, Dhanin has no illusions about where the future lies. "With China and India together with Southeast Asia, we have access to a potential market of 3 billion people," he says.

Even though CP is keen to stress growth in its core business, providing "food for thought" via telecoms and the media is increasingly preoccupying the group at home. The search for new areas for domestic investment has been driven by the rising cost of agricultural inputs in Thailand.

CP has made the leap into the region's growth industry in a big way. According to Dhanin, CP has invested US$1.4 billion, or about 70% of the group's total domestic investment, in its telecoms operations, mainly through its **TelecomAsia** subsidiary. TelecomAsia was a newcomer to the REVIEW 200 this year, taking the No. 6 position for overall leadership. It also snared the No. 3 spot for long-term management vision.

The technology leap doesn't worry Dhanin. "People think that raising chickens doesn't involve technology. Well, it does, and we're at the cutting edge of it," he says.

If all goes well, CP will be able to say the same about telecoms, too. The group is part of the Fibre Link Around the Globe multinational consortium that is laying a fibre-optics cable to link Europe and the Middle East with Southeast Asia.

Bangkok Bank came in second in

the REVIEW 200's overall-leadership ranking, down from No. 1 a year earlier. Nonetheless it vastly improved its standing as a company that others try to emulate, moving up to No. 4 from No. 9. And for the second consecutive year, it was the top choice of survey respondents in the category of financial soundness. This is hardly surprising; Bangkok Bank is Thailand's largest commercial bank, with assets adding up to about one quarter of the country's GDP.

Even so, there are many challenges facing Bangkok Bank. To cope with the changes that financial liberalisation has wrought, the bank has begun a restructuring programme. But Bangkok Bank's gargantuan size — the bank has more than 400 domestic branches and 24,000 employees — makes quick changes difficult.

The bank, celebrating its 50th anniversary in 1994, is trying to boost its corporate-finance work. It has acquired a debt-underwriting licence. The bank also says it is trying to bolster its retail-banking operations. Among the innovations: allowing customers to buy and sell mutual-fund units through the bank's automatic teller machine network.

Bangkok Bank, one of the largest banks in Southeast Asia, is also keen to expand its regional banking business. The bank already has more than 20 branches and representative offices overseas. It is seeking licences to start operations in China and the Philippines, and plans to open a second office in Vietnam.

"The key to success will be corporate planning and to be on the alert for the changes," Chartsiri Sophonpanich, the bank's new president, said in a recent interview with *The Nation*.

Chartsiri, the son of the bank's current executive chairman and the grandson of its founder, officially took the helm on December 1. His predecessor, Vichit Suraphongchai, left the bank six months ago, apparently because he was at odds with the bank's family-style management.

Italian-Thai Development, the country's largest construction company, joined the REVIEW 200 for the first time this year. It took the No. 10 position for overall leadership and No. 5 for high-quality services.

The company raised about Baht 4 billion in an initial public offering in 1994. Founded in 1958, Italian-Thai has built a host of Thailand's biggest infrastructure projects, from bridges and dams to ports and power plants. Many of the buildings it has put up have become Bangkok landmarks, including the United Nations conference centre and the headquarters of Thai Airways International.

"We are the only construction company with experience building everything," says Adisorn Charanachitta, an Italian-Thai director and the company's financial adviser.

In the future, Adisorn says, the company wants to become more involved in utilities. In 1992, the company took a 14.4% stake in Thai Telephone & Telecom, which is installing 1 million telephone lines outside Bangkok. As part of the deal, Italian-Thai won a Baht 3.4 billion contract to install outside plant for TT&T.

Italian-Thai has also agreed to invest Baht 1 billion in a hydroelectric dam to be built across a tributary of the Mekong River in southern Laos. Once the project wins formal approval, Italian-Thai will be awarded a contract to build the dam. The company will also receive a share of the revenues earned selling electricity to neighbouring Thailand.

Further down the road, company executives say, they would like to build and operate a power plant in Thailand as well. They are now waiting for the Electricity Generating Authority of Thailand to issue the terms of reference for independent power producers.

It future looks bright. It has experience and engineering expertise that none of its domestic competitors can match. And it is less expensive than foreign contractors, who must rely on costly expatriate workers. This means that the jobs keep on coming. "We have a lot of work in hand," says Adisorn.

Srithai Superware's Sanan Angubokul is bullish on plastics. The faster Thailand's economy grows, the more plastics are used. Average consumption per capita has increased to 20 kilograms from seven kilograms a decade ago, says Sanan, the president of Srithai.

The company failed to make the top 10 in the REVIEW 200. But it did maintain its No. 3 positon in the most important subcategory: high-quality products.

Srithai has established itself as a premier supplier of plastics. But the company's success is not just market-driven. Strategic tie-ups with foreign investors have helped expand the company's industrial and technological base.

Srithai has more than 10 joint ventures with Japanese firms to supply parts for manufactured goods, a strategy that has brought the company valuable business as a supplier and helped it acquire precision-manufacturing technology. ■

HIGH QUALITY SERVICES/PRODUCTS

'94	('93)	
1	(1)	Dusit Thani
2	(4)	Siam Cement
3	(3)	Srithai Superware
4	(5)	Land & Houses
5	(N.A.)	Italian-Thai Development

INNOVATIVE IN RESPONDING TO CUSTOMER NEEDS

'94	('93)	
1	(1)	Nation Publishing Group
2	(4)	Dusit Thani
3	(7)	Land & Houses
4	(13)	Serm Suk
5	(18)	Siam Motors

LONG-TERM VISION

'94	('93)	
1	(1)	Charoen Pokphand Group
2	(2)	Shinawatra Group
3	(N.A.)	TelecomAsia
4	(6)	Finance One/One Group
5	(8)	Bangkok Land

FINANCIAL SOUNDNESS

'94	('93)	
1	(1)	Bangkok Bank
2	(2)	Krung Thai Bank
3	(4)	Siam Commercial Bank
4	(3)	Thai Military Bank
5	(6)	Siam Cement

COMPANIES THAT OTHERS TRY TO EMULATE

'94	('93)	
1	(3)	Charoen Pokphand Group
2	(15)	Siam Cement
3	(2)	Shinawatra Group
4	(9)	Bangkok Bank
5	(7)	Dusit Thani

What Is Asian Leadership?

Methodology of the REVIEW 200 Survey

The REVIEW 200 is a ranking of Asia's leading companies as determined by a mail survey of executives and professionals throughout Asia.

More than 4,500 people in 11 Asian countries participated in the survey.

It was conducted in association with Citibank and administered by Survey Research Singapore. The 200 leading companies include 10 companies from each of 11 Asian nations as well as 90 multinational firms based outside Asia that do business in the region.

A questionnaire was developed that allowed respondents, using key attributes of leadership, to assess more than 500 local and multinational companies to determine the REVIEW 200. Five different versions of the questionnaire were used in each of the 11 countries: Australia, Hong Kong, India, Indonesia, Japan, Malaysia, the Philippines, Singapore, South Korea, Taiwan and Thailand.

Companies were ranked according to these key attributes:

- High quality of services or products
- Management has long-term vision
- Innovativeness in responding to customer needs
- Financial soundness
- Company others try to emulate

These five attributes were determined during the first year's survey, in 1993, through face-to-face interviews with chief executives and senior business managers in Singapore, Hong Kong and Thailand.

Survey respondents were first asked to acknowledge their awareness of the companies listed on the questionnaire and then to rank them according to the five key attributes on a scale of 1 to 7, with 7 being the highest ranking.

The survey was conducted during August and September. Survey recipients were selected at random among subscribers to the REVIEW and to Asia's most prominent business magazines published in local languages:

- *Capital* of Hong Kong
- *Business India*
- *SWA Sembada* of Indonesia
- *The Economist* of South Korea
- *Forbes Zibenjia* of Malaysia and Singapore
- *Money and Banking* of Thailand

Recognition

Each of the 200 companies will be awarded a plaque bearing the "REVIEW 200: Asia's Leading Companies" logo.

For More Information

The complete research survey is available for US$95 per copy, or the equivalent in local currency. The survey will be available during the first quarter of 1995.

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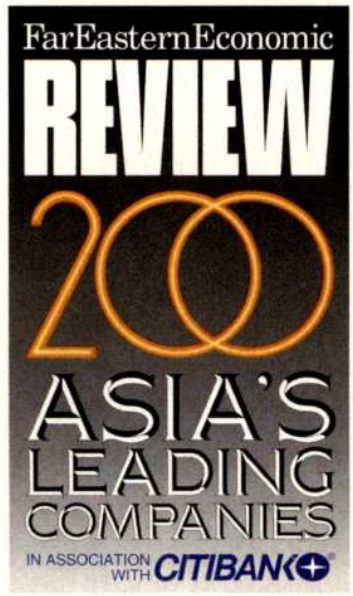
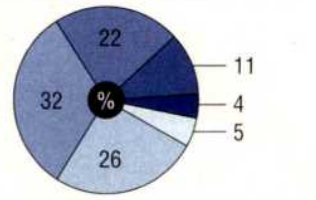


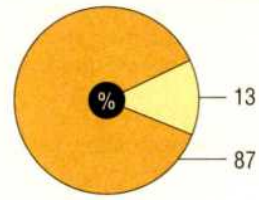
Survey Respondents at a Glance

Age



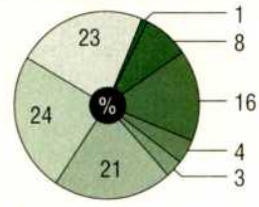
Under 25 | 25-34 | 35-44 | 45-54 | 55-64 | 65 and above

Gender



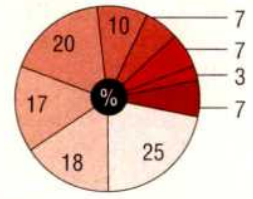
Male | Female

Job Title/Position



%	
21	Chairman/CEO/MD/President
24	Director/VP/GM
23	Middle Management/Manager
1	Sole Proprietor/Partners
8	Executive/Officer
16	Professional
4	Other White Collar/Clerical/Sales
3	Others

Industry Group ★



%	
25	Manufacturing
18	Banking/Insurance/Finance
17	Retail/Importing/Exporting
20	Professional/Consultancy Service
10	Government/Academic/Military
7	Building/Construction/ Property Development
7	Transport/Communication/Utilities
3	Agriculture
7	Others

★ *Total adds up to more than 100%, as some respondents work in several industries*

Top-flight performance on a stage of the world's far-flung corners — China Airlines

Internationally known for its seasoned pilots and youthful cabin attendants, China Airlines offers superior service with a modern fleet supported by fully-computerized maintenance facilities. From its home ports of Taipei and Kaohsiung, it provides extensive connections with its Asian neighbors as well as with the cities of North America, Europe, Australia and South Africa.

That is only fitting for China Airlines, one of the world's fastest growing air carriers, hailing from Taiwan, one of the world's fastest growing economies.

To experience the advantages of a superior route network, let China Airlines take you on your next journey on the world stage.

We treasure each encounter

CHINA AIRLINES

TAIPEI, TAIWAN, ROC

T A I W A N

Carry on singing: The really serious practitioners have karaoke machines at home.

LEISURE

That's Entertainment?

What Asians see as fun might be called 'cruel and unusual punishment' elsewhere

By Nury Vittachi

It looked like an ordinary white Mercedes-Benz, but it wasn't. This became clear when I reached for the handbrake and the stick-like instrument came off in my hand. It was a microphone.

Nelson Woo, smiling in the passenger seat, said, "Watch," then pressed a button on what looked like a car radio in the dashboard. With a click and a whir, a television screen popped out of the dashboard and angled itself up for viewing.

"There are 11 speakers hidden around the inside of the vehicle," explained Woo. He modified this car last year to the tune of HK$100,000 (US$12,950), as a demonstration model for his company, TAC Automobiles of Hong Kong. As he fiddled with the controls, deafening music filled the car and lyrics began to sail across the TV screen.

The fun was just beginning. Woo tapped a remote control. I felt my lower body start to throb. Was I having some sort of embarrassing physiological reaction? Thankfully, no. "SURROUND SOUND," Nelson shouted over the noise of the music. "I JUST TURNED ON THE SURROUND SOUND." This had caused the seats to pulsate with the music. Surely motorists were not throbbing around Hong Kong, crooning to their passengers?

"Oh yes," said Nelson. "We've already sold about 20."

Many of the activities that Asians enjoy might be defined as "cruel and unusual punishment" by Western standard

That's not to say that Asians dor adopt international pastimes. America baseball, with its quasi-religious ritua is taken seriously in Japan, Taiwan ar South Korea, for example. England cricket attracts a huge following in tl Subcontinent, Australasia and Singapor And golf courses are springing up acro Asia to meet the region's soaring deman

Asia has even embraced rugged Eur pean soccer. During this summer's muc touted World Cup series, Thai Prime Mi ister Chuan Leekpai and South Korea President Kim Young Sam agreed to pos pone an important meeting — in defe ence to a crucial match. And when tl Cup's final game stretched into the w hours of the morning, many Thai orgar sations declared a holiday and the Ed cation Ministry closed all schools.

Even Vietnam is making a bid to mu cle into this popular game. It has hired Brazilian soccer coach, Edson Azau Tauvares. Its team hopes to make a dece showing under his leadership in the 19 Southeast Asian Games.

On Other Pages

76 Take Them Out to the Ball Game

78 How's That?

80 Tee Masters

Although Asia shares many of its fun and games with other parts of the world, there are some off-duty activities that are peculiar (some very peculiar indeed) to the region. Here, we spotlight 10 popular Asian pastimes.

Perhaps the most infamous of particularly Asian hobbies is **singing karaoke songs**, backed up by instrumental tracks and "enhanced" by electronic aids. In the past decade, this Japanese pastime has spread like the Hong Kong flu through Asia's middle classes.

A recent survey of REVIEW readers showed that one third to two thirds of Asian respondents had home-karaoke machines. Indonesian respondents had the highest rate — 64%, followed closely by Hong Kong with 62%. But less than 10% of Western expatriates in Asia and 3% of Australians who responded owned one.

When they aren't singing, Asians love to **gamble**. Although many of the popular gambling games have Western roots, Asians seem to have wagering in their blood. The biggest cash turnovers in horse-racing, for example, are not found at tracks in Britain, but in Hong Kong. Betting turnover in the colony in the 1993-94 season was HK$66 billion (US$8.6 billion). In casinos in Malaysia and Macau, players sit down to distinctly Asian card games such as Dai Siu and Tian Gau. Outside formal gambling halls, the Chinese bet on insect fights and the Filipinos on cock fights.

There's an old Western joke: The waiter asks the patron how rare he'd like his steak. The patron answers: "Just make sure it isn't moving." But in Asia, a diner might request food that *does* move. Asians savour **eating live foods**, or foods that were recently eating, drinking and being merry themselves.

The Japanese relish *ikezukuri*: a fish plucked live from its tank, de-boned, served and eaten — before it has even stopped flapping.

The Philippine dish *balut* boggles Western minds — and has been known to turn a few stomachs, too. Balut is made of duck eggs. The embryos grow to various pre-hatching stages before being boiled alive. "You eat eggs, you eat ducks, so what's the difference?" asks a balut enthusiast.

Upon leaving Asian eateries, one finds another East-West gap — on the **nightclubbing** scene. In Western-style discotheques, a person's ability to attract the opposite sex is a free-market affair. Males and females circulate on equal terms. But a traditional Asian-style nightclub presents a simpler approach. Women are present only for commercial reasons, and a man's attractiveness is gauged by the thickness of his wallet. In Hong Kong's Club Bboss, a digital screen on the table continuously racks up the cost of the company one is enjoying. If a man considered the situation for a moment, he might realise that the woman cooing romantically over him probably despises him. Fortunately for proprietors, men rarely waste that much time on cerebral matters.

Asian hostess bars don't share the "sleazy" reputation of red-light bars in the West. They are, in fact, quite acceptable. This summer in Phnom Penh, the B Boss Nightclub's management erected wall signs offering patriotic customers special sex packages — "to celebrate the return of King Sihanouk."

Asian girls just want to have fun, too, of course. At the risk of being labelled sexist, I have noted that many women in the region see **shopping** for clothes and other items as a hobby. Not a uniquely Asian trait, you say? True. But women here take the concept to extremes. They are shoppers *par excellence*: Boutiques in Hong Kong's Nathan Road cater to them until 4 a.m.

Women also take the lead in early-morning **T'ai Chi exercises** in the parks of major East Asian cities. These days, older women tend to perform traditional swan-like movements, alongside younger ones practising Jane Fonda-style aerobics.

HANS KEMP/PICTURE HOUSE HK

REVIEW

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Play-time in Asia.

When it comes to cleaning up, **communal same-sex bathing** remains far more popular in Asia than in the West. Patrons flock to bathhouses with networks of dip-pools, ranging from icy cold to scaldingly hot.

A *gai-jin* (Westerner) acquaintance was in a bathhouse in Osaka when he spotted a particular cold tub that no one had hopped into. Seeing an opportunity to have the tub to himself, he plunged in — to the visible amazement of the Japanese men in the surrounding hot tubs. Bathhouse staff politely asked him to remove himself from the drinking-water supply.

Asia's young people aren't immune to having fun, either. But a 19-year-old spends his free time differently here than he would in the West. "They spend all day **taking bad photographs of each other**," says an American professor teaching at Hong Kong's University of Science and Technology. "They spend hours taking pictures of each other standing in front of fountains, etc. It's not like in America, where youngsters would let off steam by, say, dancing naked on top of moving vehicles."

Westerners at play don't necessarily behave any more childishly than Asians. Adults in many Asian countries spend hours **reading adult comic books**. They aren't filled with wimpy adventures of talking animals or masked crime-fighters wearing tights. Oh no. Comic books in the East are filled with pneumatic adults performing physically impossible feats of sex and violence, often while leaping 30 feet into the air wearing full samurai costumes.

Few self-respecting Westerners over the age of 12 would be seen in public **playing Gameboy** or other handheld video games. In Asia, however, it's perfectly normal for adults of both sexes to play video games, even while they are supposed to be focused on other tasks — such as driving a jam-packed bus, selling tourists a camera or removing someone's appendix.

The cultural divide is not unbridgeable, of course. And many non-Asians are also getting hooked on some of these activities. Still, some pastimes are easier to embrace than others. Westerners are advised to think carefully before accepting lifts from strangers in throbbing cars. ■

Nury Vittachi is the REVIEW's senior writer.

Japan may have borrowed baseball from the United States, but its version boasts a distinct flavour. Japanese pros make a year-round commitment — even though they take home only a third of their U.S. counterparts' salaries.

Take Them Out to the Ball Game

By Robert Whiting

For two weeks each August, activity on Tokyo's hyperactive stock exchange falls to a yearly low. Instead of watching their trading screens, traders — like millions of other Japanese — flock to catch their favourite game: *besuboru*, or baseball.

No sport has engaged Japan in the 20th century as much as baseball. The annual high-school baseball championship in Osaka, held each August since 1916, has long been the country's biggest athletic draw. The tournament attracts an average of 900,000 fans, not to mention the nationwide TV audience that's riveted to daily morning-to-evening coverage.

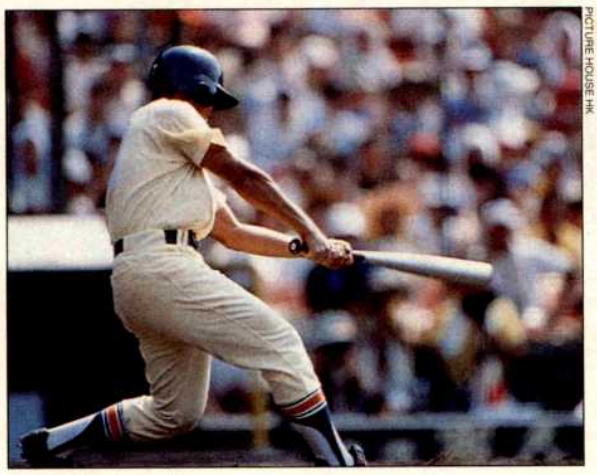
College games, too, consistently draw huge crowds, and the 12 professional teams that make up Japan's Central and Pacific leagues attract more than 20 million fans each season. The Tokyo Giants, Japan's oldest pro team, perform to standing-room-only crowds at all of their 130 games. Ticket-seekers often form lines 24 hours before the box office opens.

Japan's love affair with the sport dates to the early 1870s; then, visiting American professor Horace Wilson taught his students to play the game. The Japanese found the one-on-one battle between pitcher and batter similar in psychology to an encounter between samurai swordsmen.

The game's popularity soared in 1896 when the First Higher School of Tokyo defeated a team of Americans 29-4 in the first baseball game ever between Japan and the United States. Afterwards, Japanese pitcher Kotaro Moriyama became such a hero that he inspired a saying: "To be hit by Moriyama's fastball is an honour exceeded only by being crushed under the wheels of the Imperial Carriage."

While Japan may have borrowed the game from the U.S., its version boasts a distinct flavour. American professionals enjoy a five-month winter break at the end of their April-to-October season. But Japanese pros make a year-round commitment: three months of pre-season training starting with compulsory "voluntary training" in January, and a month-long post-season autumn camp.

In 1993, the year-end camp run by Tokyo Giants manager Shigeo Nagashima featured two-hour morning workouts, a 10 p.m. curfew, and a ban on drinking alcohol and playing mahjong. He also asked each player to write an essay, entitled: "An Examination of The Flaws in My Play This Past Season."



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Almost a samurai.

Besuboru is long on teamwork, short on prima donnas. As the commissioner of Japanese baseball noted, it "fits in perfectly with the Japanese national temper."

The Japanese can't comprehend the work stoppages and endless bickering between avaricious ballplayers and team owners that mar American major-league baseball. When the 1994 North American baseball season collapsed this summer — the result of a players' strike — novelist and baseball fan Masayuki Tamaki said to an American: "We really can't understand how you could let such a thing happen. Don't the players in your country ever think they are paid too much?"

By contrast, Japan's players' union has never gone on strike. And its members, who earn, on average, only one third of their American counterparts' salaries, speak of honour and personal obligation as much as they do of money.

In the U.S. each winter, players eligible to become free agents embark on a migration, eager to sell themselves to the highest bidder. But in Japan, only a tiny fraction of players change teams. When free-agency was introduced in 1993, only four of 39 eligible players moved on; this year, six of 58 found new teams.

Veteran star Hiromichi Ishige joined the Fukuoka Daiei Hawks as a free agent this winter. He reluctantly left his previous employer of many years, the Seibu Lions, in a disagreement over team policy. "I'm touched by Daiei's enthusiasm and devotion," Ishige said, explaining his decision. "They can pay me what they want."

A pair of charismatic 20-year-old outfielders are fuelling baseball spectators' enthusiasm. These diamond studs are the Giants' leading home-run slugger, Hideki Matsui, affectionately nicknamed "Godzilla" because of his outsized physique and bad acne; and the Orix Blue Wave's telegenic batting champion, Ichiro Suzuki, a sharp-eyed batsman who set a new single-season record for hits this year; he's listed on the official roster simply as "Ichiro." Observers consider the dynamic duo to be two of the most exciting players on the field in decades.

Another factor promises to hold baseball fans' attention: Japanese baseball fares better by international standards than do other domestic sports, including soccer, which is also enjoying a boom in popularity. More than one knowledgeable observer has suggested that the Giants' starting pitching staff, for example, is the best in the world.

Many foreign fads have stormed Japan — then vanished. But don't expect baseball to fade from the scene anytime soon. Besuboru is as enduringly Japanese as kabuki and sumo. ■

Robert Whiting wrote *You Gotta Have Wa*, a book about baseball in Japan.

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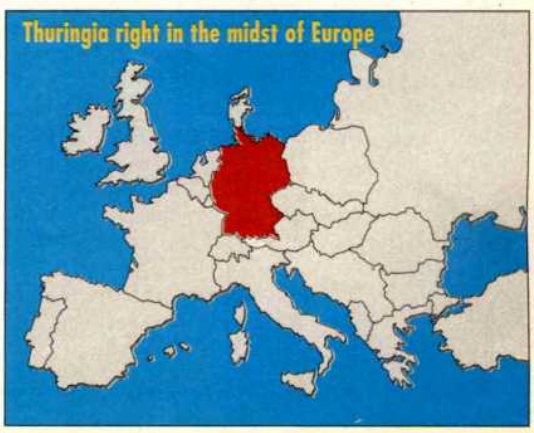

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The British may have introduced cricket to the Subcontinent, but India has become the sport's heartland. The game is also popular with the masses in Pakistan, cricket's reigning World Cup champion, and in Sri Lanka.

How's That?

By Ashis Ray

You are about to cross a street in Calcutta. While dodging push-carts and rickshaws — and tip-toeing over a large pothole, a projectile strikes you. Don't worry. It's nothing personal or hostile. A cricket match is in progress in a narrow side lane and the young batsman has just hit a boundary with a rubber ball.

As the air cools in December, scenes like this are repeated across India — from the manicured greens of stadiums in Calcutta, Madras and Bombay, to the dusty fields of myriad villages. Cricket is an enduring reminder of British colonial rule.

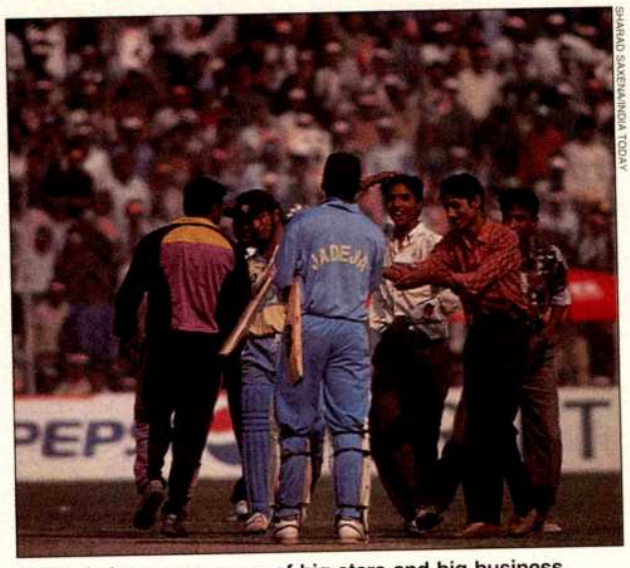
Although the British introduced the game to the Subcontinent, India has now become the sport's heartland. Here, the game draws huge crowds — and big business. Sponsors and advertisers queue up for a piece of the cricket cake, and have turned the game into a US$30-million-a-year industry.

The cricket World Cup, inaugurated in 1975, has been instrumental in stirring up the masses' obsession for the sport. Traditionally, top-class cricket was restricted to five-day, "test-match" games. But the World Cup is a tournament of one-day — or "limited-overs" — games. Still, until 1983, true cricket fans preferred the lengthier matches. But that year, the Indians won the World Cup in England — and the crowds went wild.

As cricket has become a game of the masses, it has largely shed its colonial white gear to adopt the colours of the rainbow. Players now sport multi-coloured clothes for night matches; and even the white uniform for daytime games is often adorned with sponsors' labels and logos.

Although some see it as a bastardisation of the sport, one-day cricket has improved the pace of the game. It has also spawned a new set of superstars, such as Sachin Tendulkar. He's only 21, yet he's a veteran of 35 test matches and vice-captain of India's team. He's also the second-youngest player in the annals of the game to have made his test debut at the age of 15. In cricketing parlance, Tendulkar is a boy wonder, earning about US$325,000 a year from endorsements and fees. That's hardly the millions that Western sports heroes earn, but it's a king's ransom in a country whose per capita income is only US$320 a year.

Thanks to television, successful cricketers like Tendulkar have soared to levels of stardom formerly reserved for celluloid heroes. They are mobbed by fans hungry for a handshake or autograph. Pakistan's one-time captain, tall, handsome Imran Khan, is a heart-throb at home — and a source of gossip among cricket fans the world over.



SHARAD SAXENA/INDIA TODAY

Cricket's become a game of big stars and big business.

Cricket is equally embraced by the masses across the border in Pakistan. The team's backbone is its fast bowlers, beginning with the inimitable Khan in the 1970s and 1980s. Wasim Akram and Waqar Younis picked up where Khan left off, and are fast bowlers second to none. Small wonder Pakistan is cricket's reigning World Cup champion.

In Sri Lanka, there's no shortage of gentlemanly players. Skilful youngsters surface with impressive regularity, but are either patchy or relatively short-lived in their careers. The present captain, the rotund Arjuna Ranatunga, and Arvinda De Silva, a gifted batsman, are two exceptions.

Ironically, political discord has kept India and Pakistan, the two countries in the world with the largest number of cricket fans, from playing test matches with each other since 1989 — thanks to the mounting tension over the disputed territory of Kashmir. Yet it was an India-Pakistan cricket match that once broke the ice between the countries that have fought three wars since 1947. In the late 1980s, when India-Pakistan tension was reaching new heights, the late Pakistani President Zia-ul-Haq flew to India, ostensibly to watch a match his countrymen were playing. He then proceeded to hold high-level talks with Indian leaders to try to defuse tension.

The current climate of frozen relations between India and Pakistan could pose a challenge for the 1995 World Cup organisers. Although England was anxious to host the event, the South Asian trio of India, Pakistan and Sri Lanka nabbed the honour. Public enthusiasm for cricket runs so high that the Indian and Pakistani governments will likely muffle their mutual hostility and proceed with the tournament.

Cricket has also the enthusiasm of big business — and its funding. Indian Tobacco has pledged US$12 million to sponsor the 1995 World Cup. Savvy sponsors know that ads lining the fields will be seen by millions of television viewers worldwide. And the game draws mammoth paying crowds, too: Calcutta's Eden Gardens seats 100,000 per game. This winning formula could guarantee that South Asia remains cricket's growth centre. ■

Ashis Ray, a former cricket commentator on BBC, is now CNN's South Asia bureau chief.

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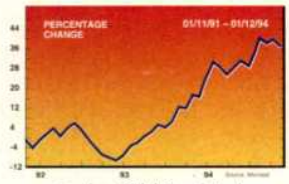

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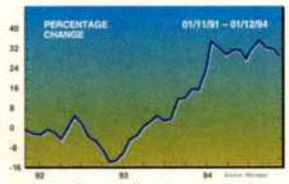

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More and more Asians are teeing off and countries in the region are racing to cash in on the game's popularity.

Tee Masters

By Rodney Tasker in Bangkok

Two couples sipped their sundowners on the verandah of a Malaysian resort hotel. As they took in the vivid green golf course rolling beneath them, a lone Japanese golfer caught their attention.

With a look of tremendous concentration, the golfer teed off on the par three hole, aiming for the green beyond a small lake. With a splash, the ball limped into the water. Another swipe landed another ball in the lake.

By the time the golfer had sunk about a dozen balls, his expression was one of controlled rage. He then strolled to the water's edge. Seizing his bag of clubs from the startled caddy, he hurled it into the lake.

As the bag sank, the golfer proceeded to take off his trousers. "Ah hah!" speculated the fascinated onlookers, "he's having second thoughts." But no: The Japanese waded into the water, recovered his sodden bag and unzipped a pocket. After removing his wallet and car keys, he lifted the bag high over his head and tossed it even deeper into the lake.

For this golfer, the links at Malaysia's Awana Golf Club in the Genting Highlands seem to have triggered more winding up than unwinding.

As a rule, the Japanese take their golf seriously — and slowly, as players following them round the course will ruefully attest. Playing golf in Japan is an expensive proposition. Weekday green fees at the prestigious Koganei Country Club, in the western part of Tokyo, are ¥31,000 (US$310). Membership is restricted to men aged 35 and older (Japanese women are not supposed to take up the game), and costs more than ¥100 million.

While, the cost of golf-club membership in Japan is dropping as more courses spring up, many Japanese golfers relish Southeast Asian getaways, where the links are just as challenging but less costly. In Malaysia, for example, green fees and caddies are cheaper than at home, as are activities such as dining out.

Although Malaysia's prime minister, Datuk Seri Mahathir Mohamad, doesn't play golf — he and Thai Premier Chuan Leekpai are the only Asean leaders who don't know their way around the links — he came to recognise its potential to boost his country's economy.

He also recognised its risks. When he came to power in 1981, Mahathir's motto of "clean, efficient, trustworthy" government extended to a message to civil servants: They should not spend time on Malaysia's golf courses.

In the mid-1980s, however, he had a change of heart. To encourage Japanese investment, he realised, golf had to be handled with care. Japanese managers must be able to play their beloved game — and with the people who mattered. As a result, playing golf with senior civil servants, including military officers, became an unspoken attraction for Japanese investing in the country. Moreover, in the late 1980s, when Japanese businesspeople complained that Malaysian caddies were demanding exorbitant tips and stealing equipment, Mahathir sent a memo to all golf courses, chastising their managements.

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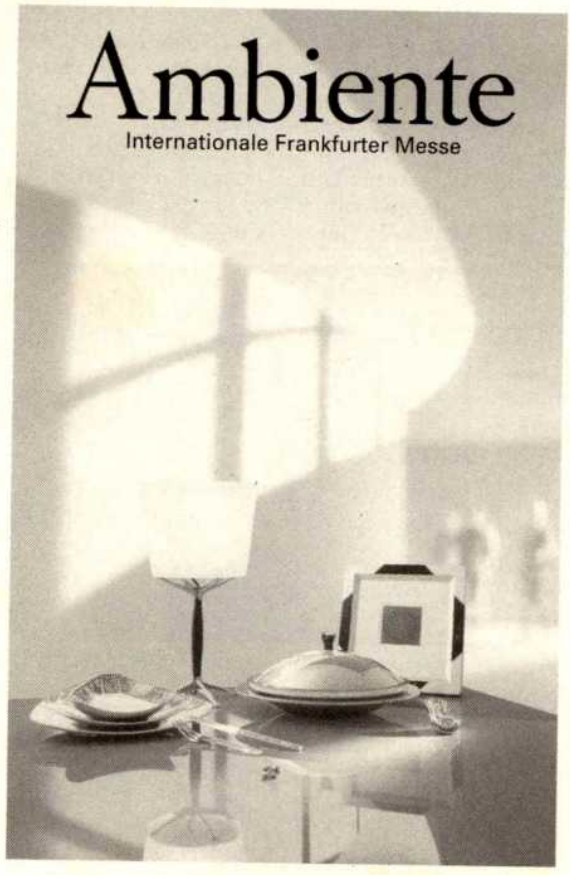

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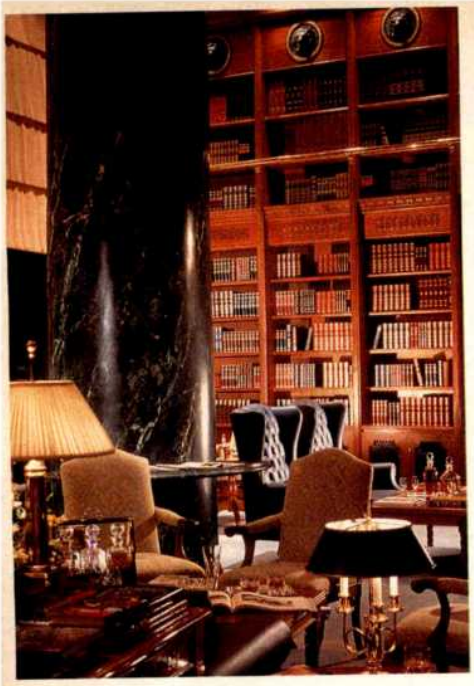

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In the Philippines, golf has always been considered akin to a national sport. New courses south of Manila, such as Orchard and South Woods, have proliferated to accommodate the Filipinos' growing demand. But Japanese, Korean and Taiwanese businesspeople also like to tour Philippine courses. Still, foreign businesspeople — particularly Japanese — don't venture too far from Manila, for fear of being kidnapped for ransom.

The late President Ferdinand Marcos of the Philippines was particularly proud of his prowess on the golf course, and boasted that he could beat Singapore's then prime minister, Lee Kuan Yew. But Salvador Laurel, a former Philippine presidential candidate and foreign minister, once divulged the secret of Marcos's success.

RODNEY TASKER

The secret of business success?

Laurel gained his insight when he was invited to the presidential Malacanang Palace for a round of golf in the days before Marcos declared martial law in 1972. The game began, as usual, with the players teeing off across the Pasig River.

Laurel, then senior senator, later described the president's style: "I saw him tee off and slice several times into the trees," he said. "I wondered why he had his security men stationed ahead of him on the course. I quickly became aware of what he was up to when, after every slice, his ball mysteriously appeared on the fairway." Laurel said he eventually won the game when he chipped into the last hole, where the guards couldn't intervene. Afterwards, Marcos wrote a message on Laurel's winning peso note — ensuring that he couldn't cash it.

Thailand, too, is cashing in on golf's appeal. There, around 50 new courses have been built in the last few years, bringing down membership fees. On a course near Bangkok, a membership that once sold for Baht 1.5 million (US$60,000) now sells for less than Baht 1 million. As in other parts of Southeast Asia, the Thais are eager to cater to Asian corporations, many of whom allow their managers to play on expense accounts. Most of Thailand's 200 courses are open to anyone, with or without a member in tow. And the price is comparatively cheap: Baht 500-1,000 on weekdays, and about double at the weekends.

Thailand has an edge over its Southeast Asian neighbours: Most of its caddies are young girls. They tend to be hefty — they *do* have to lug a heavy bag of clubs around a course for four hours at a stretch. But golfers still like to flirt with their golfing maids, sometimes at great personal risk: A Thai golfer was reported to have contracted Aids from his caddy in the southeastern resort of Pattaya a few years ago.

No such hanky-panky occurs in staid Malaysia, Singapore and Indonesia. Golf courses are multiplying more slowly in these countries. But then, Singapore already boasts 18 of them for its population of nearly 3 million. Because Singaporean courses charge S$50 (US$34) and up for green fees, and restrict play to members and guests, many Singaporeans visit nearby Johor state in Malaysia or Indonesia's Batam Island for a less costly game.

East Asians consider one's ability to master golf a reflection of business ability. An executive of Dentsu, Japan's and the world's largest advertising agency, remarks: "It is said that one condition for becoming the president [of Dentsu] is a hole-in-one."

Regardless of where in Asia they play, golfers stand a good chance of sharing the links with someone powerful. This writer found this out firsthand on a Bangkok course. The single player who asked to join our group said he was a Malaysian diplomat. At the first green, he casually announced: "Actually, I'm the Malaysian ambassador." ■

Rodney Tasker is the REVIEW's Southeast Asia correspondent.

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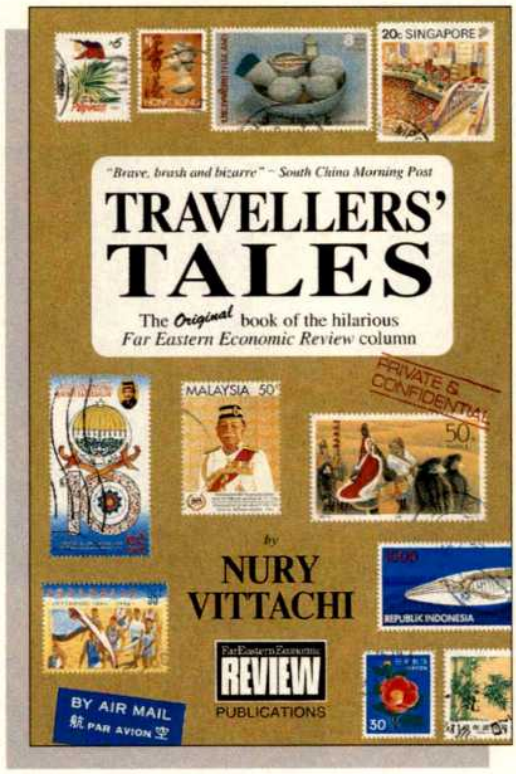

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Our Favourite Books

Recommendations from our distinguished readers

Ofelia Castano, *Consul-General of the Philippines in Hong Kong.*

I will read anything except serious books on economics and finance, though I tend towards history and biographies. I started the year with Nigel Cameron's *Barbarians and Mandarins*, a fascinating account of Western travellers in China from A.D. 635 to 1900, which illustrates the incessant curiosity about China that does not seem to have abated up to now. This was followed by Frank Ching's *Ancestors*, amazing for the fact that he could trace records of his family over a period of 900 years.

From China to Europe with Barbara W. Tuchman's *A Distant Mirror*, an account of life amid tumultuous events in 14th-century England and France, which shows that men and nations are no less disposed towards war and violence now than they were 500 years ago.

Paper Tigers by Nicholas Coleridge is about the greatest newspaper tycoons in the world. Hopefully, before the year is out, I can turn to Mario Vargas Llosa's *Conversations in the Cathedral*, since my acquaintance with South American writers has been limited to Gabriel Garcia Marquez and Isabel Allende.

Chen Lang-Ping, *author of* August, 1995: China's Violent Invasion of Taiwan, *a bestseller in Taiwan that will soon appear in Japanese.*

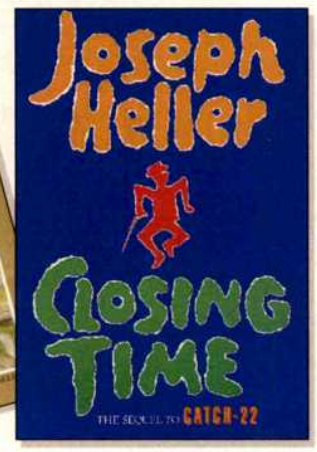
I found *A New Appreciation of the Essays by Eight Masters of the Tang and Song Dynasties*, by Lu Jingfei, particularly valuable. The book is edited by scholars in China, who collected 616 essays by eight noted literary masters of the Tang and Song dynasties.

The topics of the essays include politics, society, literature and letters. The essays display great literary refinement, and are model expressions of Chinese culture and thought. They offer an excellent introduction to "Chineseness" and the mindset of the traditional Chinese literati.

The Bell Curve: Intelligence and Class Structure in American Life, by Richard Herrnstein and Charles Murray, is a controversial and shocking book. Although the statistics are limited and the analytical and logical tools used questionable, the book breaks a taboo and challenges long-held assumptions.

In the West, it is commonly held that people are born equal and that this equality is not influenced by differences of race, class or talent. Intelligence and intellectual accomplishment is influenced by education and the environment alone.

But racial differences result in obvious differences in achievement. Is this the result solely of education and environment, and unrelated to race itself? Many doubt the conventional assumptions, but few dare to publish their doubts or carry out objective research because that would break important political taboos.



Chen Ziming, *officially designated "Black Hand" of the 1989 Tiananmen pro-democracy demonstrations. He has been under virtual house arrest in Beijing since his release from prison in the run-up to President Bill Clinton's 1994 decision to renew China's most-favoured-nation trading status in mid-1994.*

I'm reading the *The Urban Monsoon* (*Chengshi jifeng*) by Yang Dongping, an assistant lecturer at Beijing Science and Technology University. It compares the social psychology of Beijing and Shanghai, the political and economic capitals, respectively, of China. This is the first time in more than 40 years that someone in China has openly published scholarly work on contemporary regionalism, a topic that could become increasingly important in years to come.

Yang — like myself, a Shanghainese who's spent most of his professional life in Beijing — describes Beijing's two-tiered culture: *hutong* street life versus the intrigues of the palace, be it imperial or communist. Venal Shanghai tends to be more socially cohesive and receptive to foreign things. That's why, during the Cultural Revolution, Beijing was a hotbed of politically radical Red Guards, while Shanghai produced labour militants. Even today, the Beijing and Shanghai cliques in the leadership are radically different.

Ridzuan A. Halim, *chief executive officer of Rakyat Merchant Bankers Bhd. in Kuala Lumpur.*

One of the most readable present-day economists is Lester Thurow, and I thoroughly enjoyed *Head to Head*. I was struck by his observation that over the last 120 years, only Japan was able to make the grade as a fully industrialised developed country. This observation and his other incisive arguments enabled me to appreciate more keenly the full implications of Malaysia's Vision 2020.

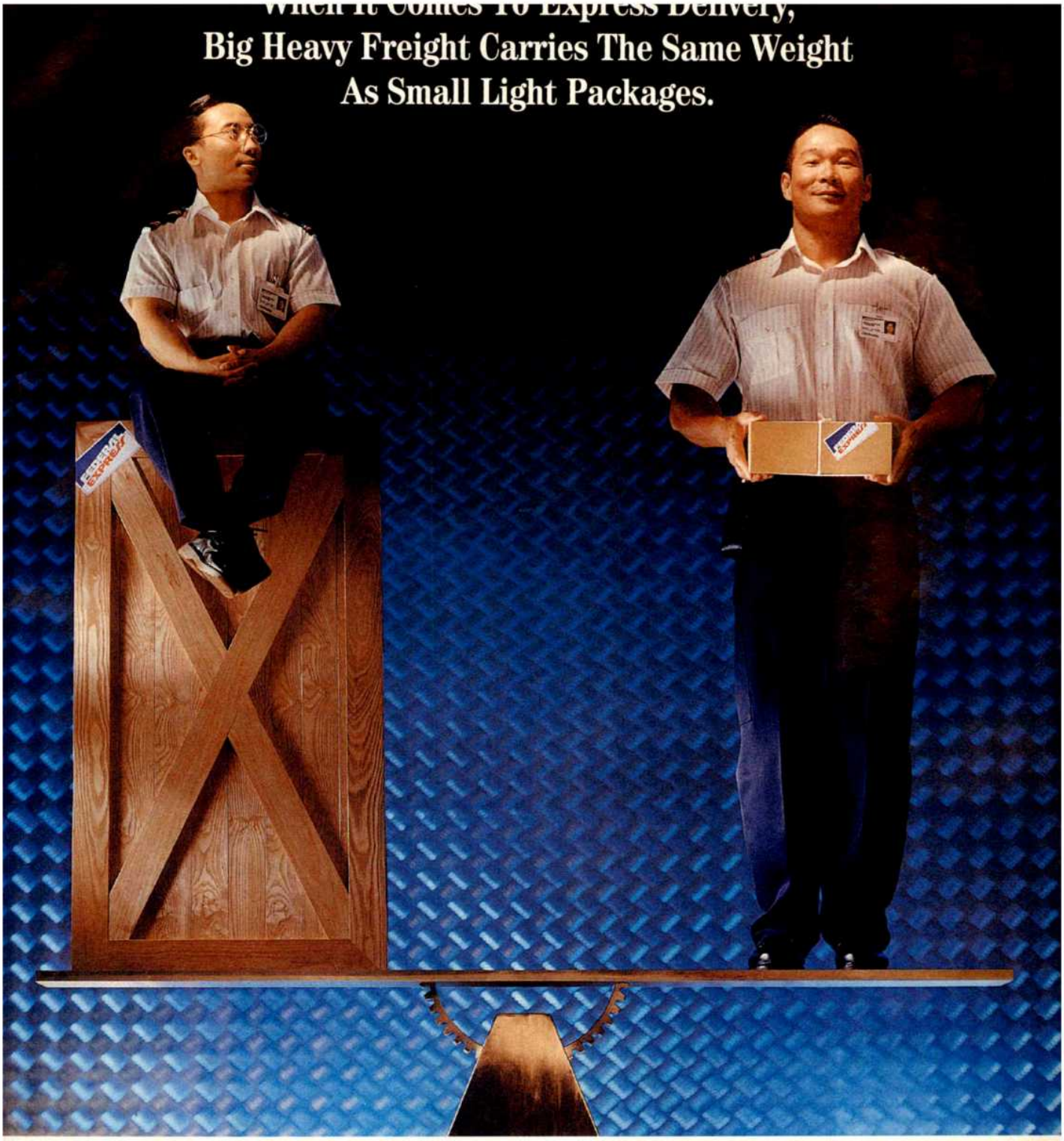
Malaysia's ability to absorb high technology is crucial. At the same time, uncontrolled immigration and population growth will have adverse effects on the country's long-term economic prospects.

As for old books, Charles Gide's *Political Economy*, first published in 1883, proved to be a great find. A century ago, this French economist provided conclusive arguments about the unacceptability and impracticality of communism and socialism. Too bad the Russian revolutionaries of 1917 were either not exposed to Gide or not convinced by him.

Mahbub Husain Khan, *former Bangladeshi civil servant who works in trade and industry.*

This year's reigning controversy in the literary world is the unreadability of the Booker Prize shortlist and the "unknown" quality of Nobel Prize winner Kenzaburo Oe.

Having read all six titles on the Booker shortlist — *The Folding Star; Paradise; Knowledge of Angels; Reef; Beside the Ocean of Time*; and the eventual winner, James



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Kelman's *How Late It Was, How Late* — I found all of them readable. Kelman's book lacks narrative drive and the main character has no hold over his fate. Yet it offers insight into the blindness of bureaucracy and how even the most trivial men and events can have their own dignity.

I confess to a predilection for books that are a good read and hold my interest during tense moments, though such books are usually considered as being false to life — detective novels, spy novels, thrillers. I have enjoyed this year's Elmore Leonard, Carl Hiassen, Ed McBain, Michael Dibdin and John Grisham.

The long-awaited sequel to the most hilarious novel of the last 50 years, *Catch 22*, has just been published. Joseph Heller's *Closing Time* is a mite disappointing, yet if it fails to be funny it turns out to be rivetingly serious. Tibor Fischer's *Under the Frog*, an account of life in Hungary in the bad old days of the communists, might have won the Booker Prize last year.

The late Nurul Momen — an eminent Bangladeshi playwright — said that a one-hour lecture requires no preparation, while a five-minute peroration needs careful attention. In literature, as in life, it is what is left unsaid or unseen, the confrontation between aspiration and reality, which is most interesting.

David Lange, *former Prime Minister of New Zealand.*

I read the the usual fiction — Treasury forecasts on unemployment and Reserve Bank assessments of underlying inflation. During the year, I reviewed *Crime Story* by Maurice Gee. What was a chore for a book token became a pleasure. Had another go at Bill Bryson from another angle. I know a lot more about American English as a result. Just started on a post-Cold War thriller. Arctic circle, research stations, cryptic messages, treachery and suspense. So enthralling I can't remember its name.

Lien Chan, *Premier of the Republic of China on Taiwan.*

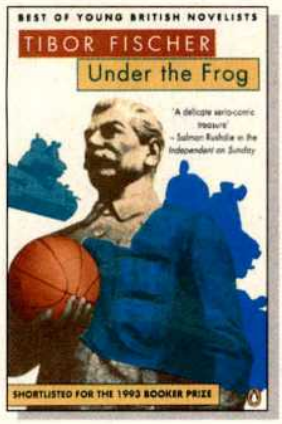
Throughout his life, my grandfather Lien Ya-t'ang felt that it was his duty to promote the good qualities of the Chinese people and to love his country and his community. He was the first person in Taiwan to devote himself to studies of Taiwan's history, and in 1920 published his magnum opus, *A General History of Taiwan*, in 36 volumes and 88 chapters.

In this work, my grandfather recorded major events in Taiwan's history, beginning 1,290 years ago, and described how our pioneering ancestors endured great hardships as they developed Taiwan over the past three centuries. *A General History of Taiwan* allows later generations to cherish the memory of their forefathers' indomitable pioneering spirit. In his preface, my grandfather wrote: "All cultured nations attach great importance to their own history."

This book is one of my family's most treasured heirlooms. It has played a key role in guiding the development of my outlook on life.

Bette Bao Lord, *author of* China Mosaic *and other books on China.*

I've read *Memoirs of Hadrian* by Marguerite Yourcenar many times. I read it again this year because it was the one book I dared recommend to the monthly discussion group I attend. For pleasing its diverse members, discriminating readers all, is as hard as pleasing the Academie Francaise — which explains why I chose a work by the first woman inducted into that august body.



Yourcenar's novel takes the form of reflections written by the Roman Emperor Hadrian to Marcus Aurelius, his youthful successor. He confesses. He cautions. And he counsels. What an impossible assignment for a novel. Every word, however, rings authentic. Every paragraph thrills. While Yourcenar wrote in French, she collaborated closely with the translator to reinterpret her prose into English. The story takes up 300 pages but covers youth and old age, riches and wants, community and chaos, war and peace, love, sickness and death in ways all too human.

I wager that no novelist would question why it took Yourcenar nearly a quarter of a century to complete this labour of love. I wager that no reader can resist her exquisite dream.

C.P.F. Luhulima, *senior research specialist with the Indonesian Institute of Sciences in Jakarta.*

Indonesia's New Order government dominated my reading at the end of the year. Michael Vatikiotis's *Indonesian Politics Under Suharto*; *Indonesia's New Order*, edited by Hal Hill; and Adam Schwarz's *A Nation in Waiting* all deal with the New Order administration.

Vatikiotis's anecdotal style and Schwarz's detailed descriptions of the Suharto government capture the current political and economic debate in Indonesia. Both try to offer glimpses of where Indonesia is going, particularly regarding the task of matching politics and economic-growth perspectives.

Hill provides a comprehensive, yet sober and authoritative analysis of Indonesia's development and achievements: the evolution of the political structure and

BRYN BARNARD

institutions, as well as the system of government; rapid economic development and the structural changes it initiates; and the demographic dimension, ecological balance and resource use.

Wilson Nababan, *president-director of CISI Raya Utama, a Jakarta-based business consultancy.*

I was touched by John Naisbitt's *Global Paradox*. Controversial and provocative, it is a comprehensive and visionary work on business management in a global, trade-oriented era. But its value lies in its deep analysis of how business is growing and how competition between large and small companies affects the information industry.

As a business consultant engaged in running a company that sells information services, I was greatly influenced by the perspectives detailed in the book. I have learned that to think big is not always right. I started my own company with a small investment and still only employ a small staff, but by aiming for high quality we have carved out a good market. Many bigger companies with a major investment are near collapse.

Hoang Ngoc Nguyen, *managing editor of the* Saigon Newsreader *in Ho Chi Minh City.*

To a Vietnamese whose country is striving to reintegrate itself into the Southeast Asian regional community and is seeking a "model of growth" from its more developed neighbours, Stan Sesser's *The Lands of Charm and Cruelty* sheds daz-

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zling light on the many dimensions of this complicated region.

In view of these countries' vast cultural and political differences, I realise that the shared dream of prosperity will not suffice to bring about regional harmony and a common regional identity. On the other hand, observing the experiences of the most developed and least developed economies in the region, I have been increasingly obsessed with the aching question: Why are "Asian values" considered the "driving force" behind some "success stories" and "the dooming" factor in some desperate cases?

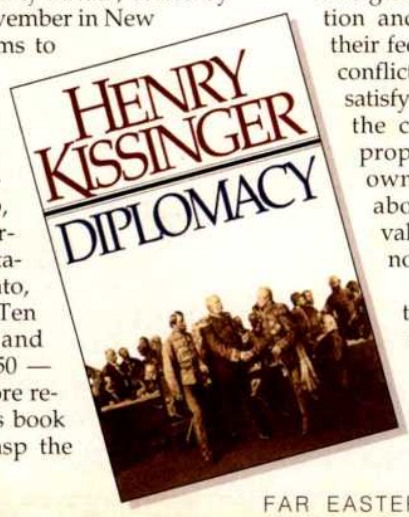
Does economic growth alone suffice for Southeast Asia, where the peoples, especially the ruling classes, are well educated in the Western tradition? Up-to-date and written in a lively style, this book by a writer for the *New Yorker* should be read by all concerned Vietnamese, although there is no chapter devoted to Vietnam.

Hisahiko Okazaki, *former Japanese ambassador to Saudi Arabia and Thailand, now senior adviser to Hakuhodo, Japan's second-largest advertising agency.*

I agree with every paragraph of what Henry Kissinger writes in *Diplomacy* about American policy in Europe, but I have reservations about his treatment of Asia. I think his approach is slanted due to his fascination with China. Also, Kissinger seems to distrust the former Axis powers, especially Germany. I personally feel that in Kissinger's mind, Japan is still associated with Germany.

Despite these criticisms, this is a great book — Kissinger can be called a second Alex de Tocqueville. De Tocqueville went to the United States from Europe in the 19th century and was amazed at how the U.S. conducted its diplomacy. Kissinger did the same in the 20th century. Kissinger is correct in saying that the traditional rules of diplomacy do not apply to the U.S. Kissinger is especially good on Woodrow Wilson and the background to American isolationism.

I bought *The Book of Virtues*, edited by W.J. Bennett, in November in New York, where it seems to be a bestseller. It's an anthology, with chapter headings like Self-Discipline, Responsibility, Friendship, Courage, Perseverance, etc. The quotations begin with Plato, Aristotle and the Ten Commandments and go up to about 1950 — there is nothing more recent than that. This book enabled me to grasp the basic values of the "good boys" of Anglo-American culture.

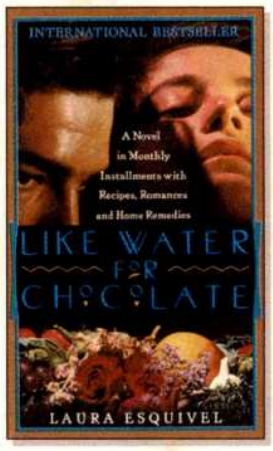


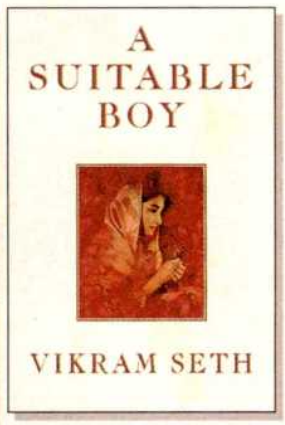
The book also helps to explain the failure of the Democrats in the recent U.S. mid-term elections. It explains why many Americans dislike the unethical trends of the last 20 years — and why they dislike the Clinton generation.

Mari Pangestu, *Department of Economics, Centre for Strategic and International Studies in Jakarta.*

I picked up Vikram Seth's *A Suitable Boy* in Singapore Airport on a long overseas trip. Needless to say, I didn't finish reading this 1,349-page novel on the trip and finally completed it after a lot more enjoyable before-bedtime reading.

The book comprises several love stories which link four families together, with Lata's story as the core. The title derives





from the tale of how Lata, with "guidance" from her mother, looks for a suitable boy to marry. It is a beautifully written book in the tradition of the 19th-century novel, tingling the senses and conjuring up vivid images of the sights, sounds and smells of India. Not what one expects from a man trained as an economist.

Despite my lack of familiarity with India, I identified with the book because it relates a story familiar to young Asians who grow up with a modern education and relative openness about their feelings and ideas. It is about conflicts between filial piety and satisfying one's own wishes; about the conflict between behaving properly and following one's own feelings; and ultimately about preserving traditional values in the flux of social, economic and political change.

It also provides the uninitiated with a history of newly independent India. It has many political overtones relating to India's struggle as it faces its first general election. I recommend this book highly, particularly for busy people on long trips.

Felicito Payumo, *congressman, First District of Bataan; chairman, Committee on Economic Affairs, House of Representatives, the Philippines.*

In school, I always regarded history as boring. Dates, places and characters from the distant past meant little to me — until I was introduced to Barbara W. Tuchman's *The March of Folly*.

Exploring a few key historical events, she shows how foolish governments can be in pursuing a self-destructive policy despite the availability of an alternative. From then on, I was hooked — Paul Kennedy's *The Rise and Fall of the Great Powers* was easy reading but instructive for policymakers. With his new book, *Preparing for the Twenty First Century*, Kennedy joins the ranks of John Naisbitt and Alvin Toffler in divining the future.

I am partial to William Manchester because in *American Caesar* he chose a more contemporary subject. But one reads him not for insight. In his first foray into the medieval age and the Renaissance, *A World Lit Only by Fire*, he makes Magellan, popes and kings come to life.

The New Emperors, by Harrison Salisbury, is anecdotal rather than analytical. It is interesting because the characters of Mao Zedong and Deng Xiaoping are closer to home.

Thinking in Time by Richard Neustadt and Ernest May offers a textbook approach to the uses of history for decision makers. The authors use horror stories, mostly American, such as the Bay of Pigs, Watergate and Teheran, and such mundane issues as social-security reform to illustrate how "overdependence on fuzzy analogies" can lead to faulty analyses.

For alternative theories on political systems and economics, it is good to be exposed to some outcasts from the academic mainstream such as Robert Reich and Lester Thurrow (*Head to Head*), along with academic heavyweight Paul Krugman (*The Age of Diminished Expectations*). I found them useful during committee hearings to keep bureaucrats and academicians honest.

Dropping the heavy stuff, I picked up my wife's *Like Water for Chocolate* by Laura Esquivel and found it delightful and titillating. I'm also reading my daughter's *The Art of Wordly Wisdom* as suggested — slowly and a few bits at a time. It is by Baltazar Gracian (1601-58), a Jesuit who writes like Machiavelli.

A sample of his aphorisms: "Don't express your ideas too clearly . . . to be

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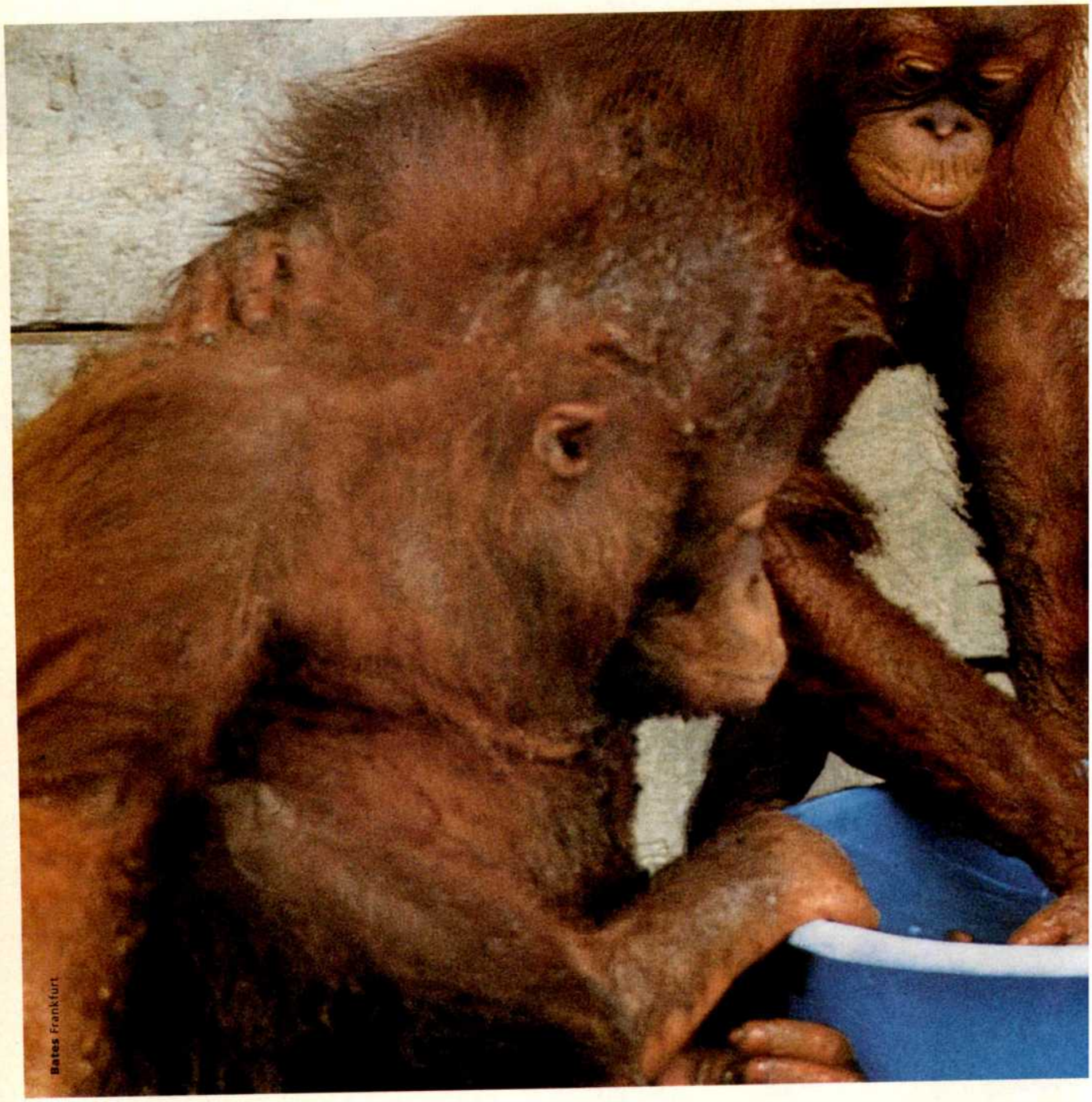

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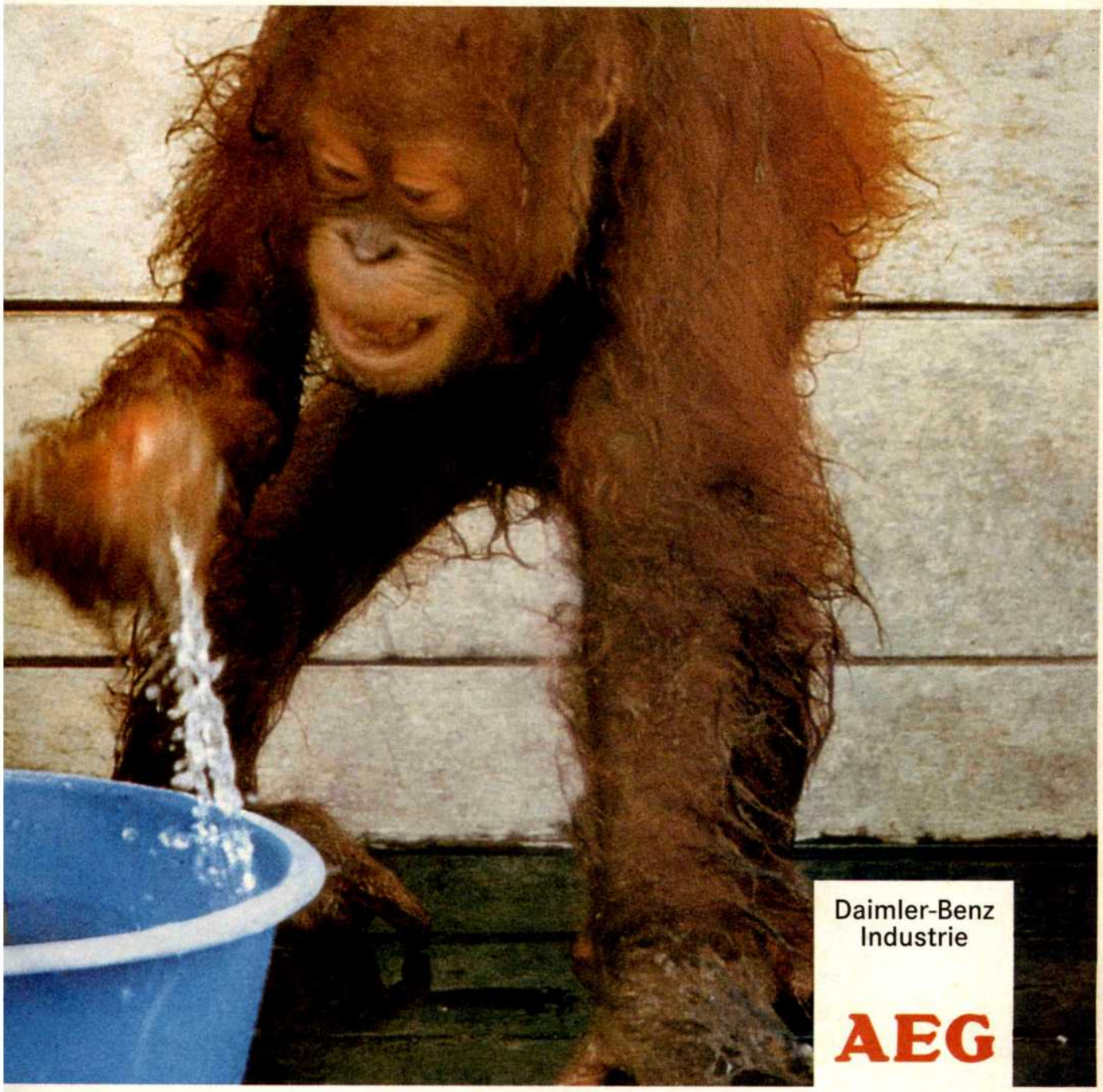
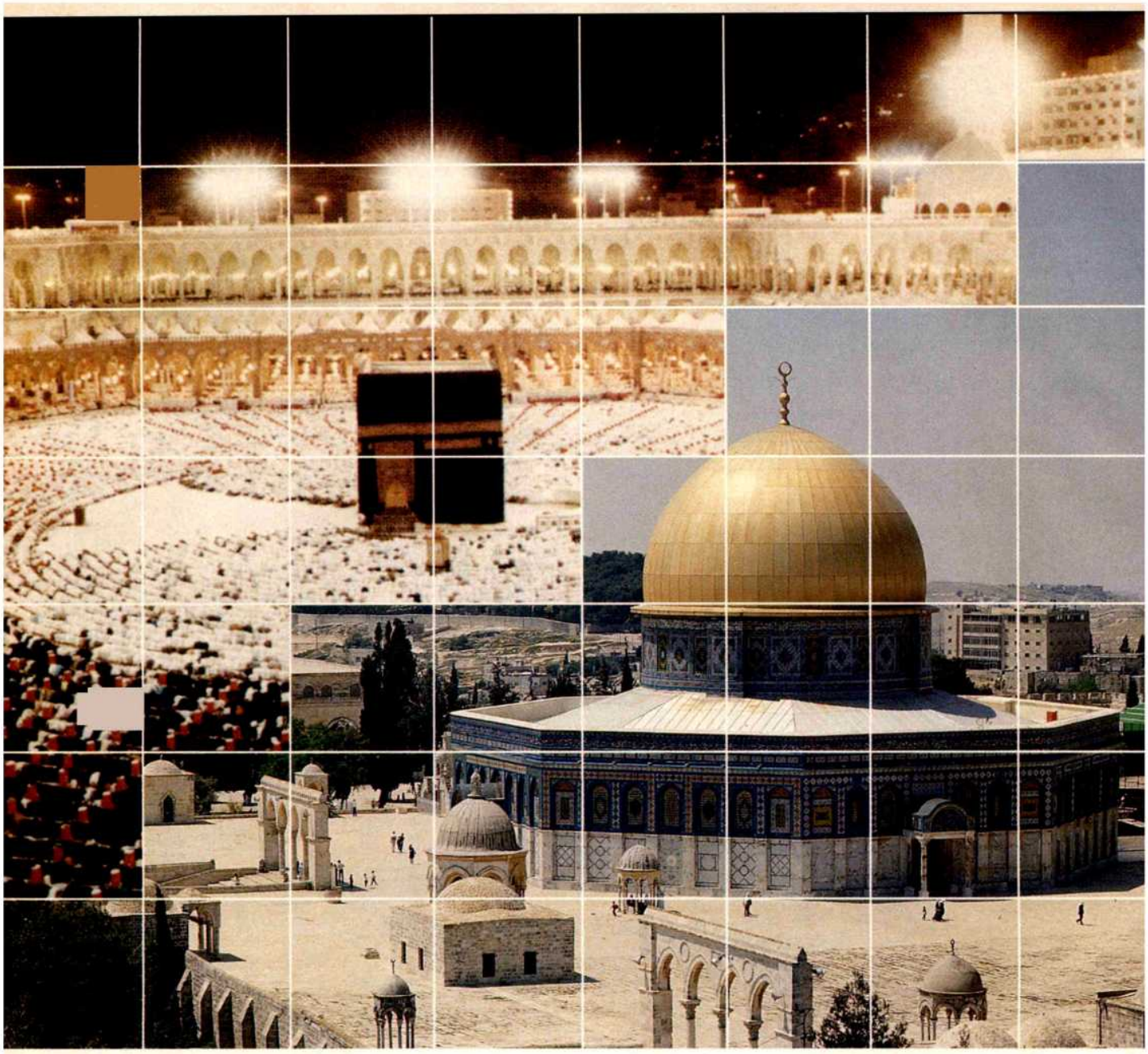


ANOTHER DAY, A BETTER WAY



بِسْمِ اللهِ الرَّحْمٰنِ الرَّحِيمِ

سُبْحَانَ الَّذِيٓ أَسْرَىٰ بِعَبْدِهِ لَيْلًا مِّنَ الْمَسْجِدِ الْحَرَامِ إِلَى الْمَسْجِدِ الْأَقْصَا الَّذِي بَارَكْنَا حَوْلَهُ لِنُرِيَهُ مِنْ آيَاتِنَا إِنَّهُ هُوَ السَّمِيعُ الْبَصِيرُ.

صَدَقَ اللهُ الْعَظِيمُ

(سُورَة الإِسْرَاء)

The venerable Kaaba and the blessed Aqsa Mosque: not too distant Islamic shrines that you can reach through a single gate.

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ROYAL JORDANIAN الملكية الأردنية

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valued, things must be difficult: If they can't understand you, people will think more highly of you . . . It is easy to kill a bird that flies in a straight line, but not the one that changes its line of flight."

Sundra Rajoo, *architect and town planner with Bank Negara Malaysia.*

I read whenever and wherever I can. At traffic lights, between appointments, early in the morning and late at night.

This year, among the more thought-provoking books was Thomas Keneally's *Schindler's List*. I was prompted to read it after the ballyhoo over Spielberg's film. It is the story of a German who saved 1,300 Jews from the Holocaust. Schindler is a wartime industrialist and employer of slave labour.

I was reconciled to the possibility of only the malevolent occuring. Enter Schindler. He is expansive, a wily opportunist with lots of nerve. But in the end, I was baffled. Schindler was a wheeler-dealer, a tireless womaniser and a slippery customer. That he should have risked his neck on a sudden impulse might be understandable. But his systematic and repetitious actions are inexplicable.

It is likely the real Schindler was less congenial than the fictional one — which makes him even more of a puzzle. I was left with a sense of his altruism and the same unanswerable riddle: Why did he do it? But the book is more than just Schindler. It is about anguish and terror. The very normality of the death procedures and the machinery of termination filter through.

Henry Kissinger's *Diplomacy* is a *tour de force* magnificently organised, magisterial in scope and flawless in presentation. It is a life's work summing up the author's vast experience. It deals with the study and practice of power politics. Kissinger mesmerises with his balance-of-power strategies. He analyses power politics: the accumulation, threat and use of force together with the recognition and acceptance of the limits of such power.

Starting from the Thirty Years' War, which resulted in the 1713 Treaty of Utrecht, Kissinger ends by predicting the future world order: a multipolar world in which America's military power has limited value. Japan and Europe equal the United States as economic powers. China will attain the same level in the coming century. All must define their interests and balance them with their resources. Foreign policy must start with the definition of what constitutes a vital interest. Kissinger does not stray from the idea of the balance of power. For him, it is a necessary preoccupation.

Rehman Rashid, *former journalist, author of* A Malaysian Journey.

The eight books currently by my bedside are:

Moth Balls by Kit Lee. New skin for an old ceremony, but the great Kit Lee writes like an angel.

Parallel Myths by J.F. Bierlein. Interesting. Read about the Flood in Sanskrit, Maya and Navajo.

The Secret of Secrets by Abd 'al Qadir al-Jilani. Glory-drenched exposition by Sufi master. A story so bright I had to wear shades.

Afterlife by Carol Neiman and Emily Goldman. Lavishly illustrated but essentially vacuous ramble through the valley of the shadow of death through the ages. (I bought it for the Bosch reproductions.)

The Other Side Of Mahathir by Zainuddin Mydin. Up close and personal with The Boss, with a faint whiff of singed eyebrows.

From Primitives To Zen by Mircea Eliade. Ah, grand companion! Handy compendium of great wisdom.

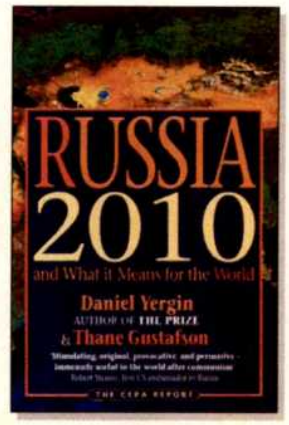
Night by Bilge Karasu. Irredeemably pretentious.

Southeast Asian Affairs 1994, by the Institute of Southeast Asian Affairs. I love these guys. They think like mad about everything.

These are the books by my bedside. I can't say I read them, so much as sleep with them.

Rhee Tong Chin, *director of publications and educational projects, Kim Dae Jung Peace Foundation for the Asia-Pacific Region, Seoul.*

The collapse of the Soviet Union as a superpower and its disappearance from the world scene as the crucial balancer of the bipolar world does not put an end to Russia's lingering strategic role.



Notwithstanding its shattered economy and current political chaos, Russia's potential military-strategic influence and its vital geopolitical role in the global equilibrium only reinforce its strategic importance. It is precisely this residual strategic importance and the possibility — even probability — of its economic-political recovery that is the subject of *Russia 2010 and What it Means for the World* by Daniel Yergin and Thane Gustafson, a timely and relevant book by authors who have penned important works before.

If Russia is still a major player in the global balance of power, what will its future role be once it re-emerges as a quasi-empire? That is a question which all world powers must ponder while considering their own long-term responses.

Malvika Singh, *associate publisher of the Business India Group in New Delhi.*

The proliferation of writing from the Subcontinent is inspiring. These books allow one to identify with the many nuances, moods and flavours that are representative of different periods and places in the region.

In *A Suitable Boy*, Vikram Seth crafts the great soap opera of the Punjabi middle class. Its endless, intricately woven layers of family drama in independent India allow one to reminisce while dipping in and out of 1,300 pages over many months.

A River Sutra, by Geeta Mehta, links stories together that conjure up very real images. It is a canvas that could easily become a splendid television serial.

The Spirit Land brings to life, through fictionalised renderings, Pepita Seth's personal passion. It is a controlled yet vivid portrayal of another, often forgotten world; a world that coexists with one that is rapidly growing sterile.

O.V. Vijayan's *The Legends of Khasak*, a translation from Malayalam by the author himself, is the finest writing that I have read recently. It is a must — nothing more needs to be said.

These writings bring into sharp focus the contrast between the creative, fictionalised material one chooses to read and the factual newspaper reports one is compelled to read. They contrast reports of the emerging markets and the slow but steady restructuring of the economy with more humanistic, tempered realities that are carefully woven into tales of fiction.

These writings are a constant reminder of the collective "soul" of the Subcontinent that continues to thrive and evolve, sustaining its vibrant nature through the many changes occurring in our multi-dimensional world. ■

JOSE REMARES

JOSE REMARES

The Philippines' Securities and Exchange Commission and its chairman, Rosario Lopez: Is something rotten within?

MARKETS

Den Of Inequity

Business as usual may not be the case for long at the Philippines' Securities and Exchange Commission. Charges of rampant corruption have sparked calls for its overhaul.

By Rigoberto Tiglao in Manila

It seemed like a relatively insignificant corporate squabble: The president of the privately owned Philippine Merchant Marine School was trying to prevent a hostile takeover. For help, he turned to the country's Securities and Exchange Commission. Then things went drastically wrong. Pending an SEC order that would prevent a shareholders' meeting, rival factions took matters into their own hands. A shoot-out on July 8 at the school left one security guard dead.

The fallout from the incident, however, reaches far beyond the school's gates. The battle for control has blown open the doors of the SEC, sparking charges and countercharges of corruption among its five commissioners. The events also triggered two official probes of the body, which has long been rumoured to function on favours and bribery.

Results from an investigation by the Senate's anti-graft committee were released on December 9. Although the panel concluded that it could not prove that corruption had occurred in the marine-school case, it said there was no doubt the SEC's reputation had been severely damaged. It called for a revamp of the agency "to arrest its continued decline in credibility and public esteem."

The report is perhaps the first public warning that the body that regulates the country's capital markets is — at best — inefficient and — at worst — rife with corruption. The agency has become a potential Achilles' heel within the Philippine bureaucracy as Manila tries to rebuild its reputation as a promising investment site.

In the past, "people didn't pay attention to the SEC," says a former SEC official. More, however, is at stake now. "With billions of pesos raised through the stockmarket and billions more involved in intra-corporate squabbles, the SEC's integrity is becoming more and more important," says the former official. Stockmarket capitalisation had soared to US$41 billion by the end of October from US$5.9 billion in 1990.

The World Bank has also singled out the agency as an obstacle to developing a capital market. "The SEC has not been able to perform its mandate effectively," said a July report from the bank. The report claimed that the SEC's rules were arbitrary and its bureaucracy inefficient.

A visit to the SEC reveals an agency in disarray. Its basement is packed with corporate files brimming over with paper. Stray sheets litter the floor. Comments one Philippine Stock Exchange official: "One fire there and all of this country's corporate records are gone."

Six storeys up, where 59-year-old SEC Chairman Rosario Lopez has her office, the atmosphere becomes more surreal. A five-foot statue of the Virgin Mary and a two-foot-high plaster baby Jesus stand in a hallway. Looking over the piles of corporate records and letters requiring SEC action in Lopez's office are three more Jesus statues — all a mark of Lopez's beliefs.

It's here, under the watchful gaze of the icons, that events that would lead to the killing at the marine school took shape. In early July, a lawyer named Justiniano Adviento claims he walked into Lopez's office and plucked the SEC's decision to block the shareholders' meeting at the school from the desk of the chairman's secretary. The document was supposed to be routed to the SEC's four other members for their signatures.

Adviento, who represented the threatened school president, took it upon himself to obtain their approvals. He barged into Commissioner Perfecto Yasay's office and demanded that he sign the order, according to Yasay's testimony before the Senate anti-graft committee. Yasay, who was appointed to his post last year by President Fidel Ramos, protested what he considered a highly unusual procedure.

Adviento then complained to Lopez. The chairman told the Senate that Adviento claimed that Commissioner Yasay demanded a bribe for his signature. Yasay denies the charge. Two days later, with the restraining order intended to halt the shareholders' meeting still unsigned, the shoot-out erupted at the school.

A different type of shoot-out already had occurred within the SEC. Lopez asked the National Bureau of Investigation to investigate Yasay and Commissioner Rodolfo Samarista, whom Adviento accused of being on the take. (Samarista is a longtime member of the agency who has had ambitions to be chairman, according to his friends. Lopez has worked at the SEC for 33 years, gradually moving up through the ranks.) The NBI has yet to release its findings.

For his part, Yasay on November 23 filed an affidavit asking Manila's anti-graft prosecutor to investigate Lopez. He alleged that she "maliciously and with deliberate intent gave undue advantage" to Adviento's clients. The prosecutor has not taken action.

The infighting comes as no surprise to former commissioners, corporate lawyers, stock brokers and investment bankers who have long done business with the SEC. Many say privately that they have complied with a system of kickbacks for approvals for securities registrations, initial public offerings, and favourable decisions on corporate legal cases.

"We just tell our clients that they have to make the pay-offs, and how to do it, but we're out of it," says a former SEC commissioner who now runs a law practice. "Every successful corporate law firm has this type of lawyer who's hired not because of his legal expertise but because he knows how to fix these things. Often, he's a former hearing officer of the SEC, as he has the contacts there."

While the allegations of corruption are difficult to prove, no one doubts that they have undermined the SEC's credibility. As the Senate report put it: "The SEC's institutional reputation has perceptively suffered by recurring reports of graft . . . The diminished esteem of the SEC may be attributed to the current leadership of the Commission."

SEC Chairman Lopez recognises the problem, but deflects blame from herself. In an interview, she says: "I get all these criticisms, these unsubstantiated charges because I've stepped on too many toes. I was responsible for merging the two stock exchanges [Manila and Makati], which made possible the stockmarket boom. Those brokers opposed the unification since they'd lose as much as P50,000 [US$2,000] a day by swindling investors through two prices for the same stock."

JOSE REINARES

JOSE REINARES

SEC Commissioners Yasay (*left*), Samarista.

Lopez adds: "Now they're stepping up their campaign against me since I'm determined to remove brokers' allocations in IPOs," or initial public offerings. These allocations can result in windfall gains for underwriters.

Many in the financial industry, however, say that the SEC's biggest problem is, indeed, its chairman. An official of the Capital Markets Development Council — composed of trade associations of merchant bankers and stock brokers — says: "The Philippine capital market will never take off as long as Lopez is there."

Vivian Yuchengco-Locsin, president of First Resources Securities, questions Lopez's assertion that she was responsible for the merged PSE. "It was Ramos and executive secretary Teofisto Guingona who were responsible," she says. "Lopez made the unification difficult when she turned it into a real-estate fight."

Lopez and Robert Coyiuto, chairman of the former Manila Stock Exchange, favoured the Tektite building in the Ortigas area; the Makati Stock Exchange preferred the Ayala business district. A compromise has created one exchange with two trading floors linked by computers.

Many industry observers decry Lopez's close ties to Coyiuto. The two have been at odds with PSE President Eduardo de los Angeles, who has pushed for stricter corporate-disclosure rules and initiated insider-trading investigations. Lopez is seeking to oust de los Angeles on the grounds that he is not a broker.

She is also watching her own back, fearing that Commissioner Yasay is out to unseat her. In a letter to Lopez — a copy of which was also sent to National Security Adviser Jose Almonte, considered Ramos's closest adviser — Yasay alleged that the chairman unnecessarily delayed the release of five decisions.

Lopez has also resisted a project funded by the United States' Agency for International Development to study ways to reform the SEC. Referring to Andersen Consulting, which won the US$8 million contract, she says: "Even with their consultants getting fat fees of US$1,800 a day, they have nothing to contribute to us."

Lopez does have her supporters. "I've known her for 20 years, and I think she's the most honest official in Ramos's government," says Mercedes Gotianun, president of conglomerate Filinvest. "Her problem is that a lot of people want her post, which is really a very powerful one."

Government and finance-industry sources say that the controversy surrounding Lopez has driven a wedge between two of Ramos's top officials. Legal adviser Antonio Carpio is believed to be lobbying to have her ousted. But National Security Adviser Almonte, the sources claim, backs Lopez.

The chairman has another politically influential backer: Manila Archbishop Jaime Cardinal Sin, who has regularly used his pulpit to criticise Ramos. This may be one reason why Ramos is moving cautiously regarding the SEC. The president issued an order in September — one that Lopez unsuccessfully tried to block — to put the agency under the administrative control of the Finance Department. It was eventually implemented on December 9 when Finance Secretary Roberto de Ocampo designated liaison officers from his department to the body.

One government official says: "She was so much against the order that we expected her to resign, and we were preparing to recommend to Ramos that she be appointed ambassador to the Vatican. But she didn't." ■

INVESTMENT

Opportunities of Oz

Australia beckons as a regional headquarters

By Jacqueline Rees in Canberra

Conventional wisdom holds there are three cardinal rules in setting up a regional headquarters: location, location and location.

But Australia seems to be turning that adage on its head. With property prices and other expenses undermining Asia's cost advantages, Australia is starting to look more plausible as a place to base Asian operations.

Hong Kong and Tokyo are the most expensive cities in the world to set up an office, according to property analysts Colliers Jardine. High operating costs and rocketing commercial and residential rents are forcing a number of firms to pare staff and in some cases move to more inexpensive cities such as Bangkok and Manila.

In Australia, cheaper office rents, a lower cost of living, a skilled labour force and good telecommunications make the country an attractive alternative for setting up a regional headquarters. At an average of US$158-298 a square metre, Australia's prime office space is only about half the cost of Singapore's and one eighth Hong Kong's. Residential rents are equally reasonable. A luxury four-bedroom apartment costs about US$1,740 a month in Sydney compared with US$4,780 in Singapore, US$13,550 in Hong Kong, US$4,500 in Bangkok, and US$8,670 in Tokyo, according to the Union Bank of Switzerland.

To try to capitalise on these advantages, Australia has added a number of sweeteners. It has streamlined its immigration procedures for employees of multinationals; introduced tax concessions such as exemptions from withholding tax on foreign-source dividends passing through a resident company to a non-resident shareholder, and offered a 150% tax break for companies carrying out research and development in Australia. A wholesale sales-tax exemption is also available for computer equipment that is imported for the purposes of setting up a regional headquarters.

Australia's efforts to attract regional headquarters appear to be yielding dividends. So far 96 companies have taken the bait, 31 of them in the last 12 months.

Cathay Pacific and the Hong Kong Jockey Club, for example, have both selected Australia as a regional centre for computer-based data and support services. Cathay is going to Sydney in 1995; the Jockey Club is already on the Gold Coast south of Brisbane in the northern state of Queensland.

In September, China's state-run media conglomerate Guangzhou Television set up its international headquarters in Melbourne, citing cheap office rentals, sophisticated business services and a higher quality of life.

Multinational companies based in the United States and Europe are following suit. In July, Hella, a German automotive-parts company, decided to set up its Asia-Pacific base in Melbourne. So has U.S. giant Campbell Soup. David Wells, Campbell Soup's regional vice-president, says good management skills as well as cheaper land, transport, warehousing, and communications costs were major drawing cards.

What a Bargain

Rentals in Australia compare favourably with Asian cities

Prime office space
(US$ rental per square metre)

City	Low	High
Bangkok	190	285
Guangzhou	568	710
Ho Chi Minh City	300	456
Hong Kong	1,252	1,586
Jakarta	120	216
Kuala Lumpur	139	224
Melbourne	125	257
Shanghai	660	1,140
Singapore	378	548
Sydney	172	426
Tokyo	770	1,635

Source: Colliers Jardine

REVIEW GRAPHIC/RAY LEUNG MANFRED GOTTSCHALK/PICTURE HOUSE HK

Britain-based Cadbury Schweppes and Sara Lee, the American frozen-food company, meanwhile, are also setting up. Alan Rogers, Sara Lee's chief executive in Australia, says the country's high-quality and low-cost food products make it an ideal launching pad into Asia.

But it's not just price that has them coming. When American computer-software giant Novell decided to set up its regional headquarters in Australia this year, the availability of Asian-language speakers was a major draw. It found that Sydney was one of the few cities where it could hire staff fluent in the 11 languages the firm uses in operations in 17 regional countries.

"One of 20 Australians was born in Asia and one in two migrants are Asian," says Peter Cook, Australia's minister for industry, science and technology.

Good telecommunications infrastructure is also a key incentive. More than 10 information-technology and telecoms companies have based their Asian operations in Australia. On December 1, BT, formerly known as British Telecom, set up its regional headquarters in Sydney. "All Australian telecommunications providers are able to take advantage of the Pacific Rim East West fibre-optic cables," says Steve Burdon, BT's regional director. "Singapore and Hong Kong do not have this advantage."

Still, Australia isn't gloating just yet. No matter how good its fibre-optic cables, it is still a long way from just about everywhere. For some firms, this distance makes Australia prohibitively expensive. U.S.-based Western Geophysical, an oil-exploration company, moved from Singapore to Perth in Western Australia 18 months ago. But it found servicing its exploration vessels as far away as Pakistan and South Korea too costly and time-consuming. Now it's moving its exploration operations back to Singapore, although its data processing will stay in Perth.

In late November, meanwhile, Jardine Matheson said it would trade in Singapore rather than on the Australian Stock Exchange after it delists from the Stock Exchange of Hong Kong next year. "The decision was related only to shares," says Jardine's Australian manager, Bob Sutton. "I think there is certainly a place for building up other elements of our operations out of Australia, such as property."

Last year the government hired Melbourne-based Allen's Consultancy Group to look at its efforts to attract regional headquarters. It found that only 65 companies had set up headquarters as of December 1993, compared with 500 firms in Hong Kong and 254 in Singapore. The 65 regional headquarters generated 1,100 jobs and A$350 million (US$292 million).

Allen's says further improvements are needed in business infrastructure, marketing, and tax arrangements if Australia is to compete with rivals such as Singapore. Australia's corporate tax rate of 33%, for example, is one of the highest in the region, surpassing Malaysia, Thailand, Singapore, Taiwan and Hong Kong.

Even if Australia fails to lower corporate taxes, however, there are still other perks — like cheap golf-club memberships. Says Cook, Australia's minister for science, technology and industry: "You'll pay A$33,000 for a corporate membership in Australia compared to A$110,000 in Singapore and A$320,000 in Hong Kong." ■

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This announcement appears as a matter of record only.
THE BANK OF NEW YORK
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NYSE Symbol: TL
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Grupo Insacell, S.A. de C.V.
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1994.

Another very good year.

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KOREA ELECTRIC POWER CORPORATION
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the establishment of a
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P.T. INDONESIAN SATELLITE CORPORATION
NYSE Symbol: IIT
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P.T. TRI POLYTA INDONESIA
NASDAQ Symbol: TPIFY
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for
POSCO
Pohang Iron & Steel Co., Ltd.
NYSE Symbol: PKX
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REMBRANDT GROUP LIMITED
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SPONSORED AMERICAN DEPOSITARY RECEIPT (ADR) FACILITY
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sappi limited
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SPONSORED AMERICAN DEPOSITARY RECEIPT (ADR) FACILITY
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Shandong Huaneng Power Development Co. Ltd.
NYSE Symbol: SH
THE BANK OF NEW YORK

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the establishment of a
SPONSORED AMERICAN DEPOSITARY RECEIPT (ADR) FACILITY
for
上海氯碱化工股份有限公司
SHANGHAI CHLOR-ALKALI CHEMICAL CO., LTD.
Class B Shares
Traded on the Shanghai Securities Exchange
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COMPANIES

Just Between Friends

Samsung's car-making venture stirs controversy

By Shim Jae Hoon and Michael Newman in Seoul

The shouts could be heard outside the doors to the private dining room at Seoul's Palace Hotel. Inside, flanking Park Un Suh, South Korea's feisty vice-minister of Trade, Industry and Energy, sat the presidents of the country's top two car makers, Chon Sung Won of Hyundai Motor and Han Seung Jun of Kia Motors.

When Park emerged from the hall his face was drawn and tense. "I've explained the government's policy regarding Samsung's entry into the automobile industry," he told reporters. "The industry submitted a different view."

That might be the understatement of the year. When Seoul approved Samsung's application to import auto-making technology from Nissan Motor of Japan on December 5, the decision touched off massive protest rallies by unionised car workers across the country. Just two hours after the decision was announced, presidents of all five car makers demanded that the government overturn its decision.

Existing producers and industry groups warn that adding a sixth car manufacturer will lead to overcapacity in an already competitive market, start a bidding war for South Korea's limited supply of skilled car workers and create greater reliance on imported parts.

While domestic car sales are still strong, they argue, demand is expected to slip to single-digit growth rates by the end of the decade. And there doesn't seem to be a lot of room to grow in the export market, unless Samsung counts on some weaker companies dropping out of the business, because global car sales have been stuck at 33-35 million units a year since the beginning of the 1990s.

The government says its decision to approve Samsung's venture goes far beyond the car industry and signals the dawn of a new era of industrial freedom in South Korea. The Samsung decision effectively ends President Kim Young Sam's earlier promises to restrain the *chaebol*, the family-owned conglomerates that make everything from ships to electronics, and encourage them to specialise in three core industries. "There will no longer be instances of government telling the private sector where to invest," Park said.

But there are plenty of sceptics in an economy where the government has always tried to have both the first and last word. The next test of the Kim administration's commitment to deregulation is likely to be Hyundai's bid to make steel. Hyundai wants approval from the Ministry of Trade, Industry and Energy to build an integrated steel mill capable of turning out 9.6 million tonnes of steel annually, equal to nearly one third of the country's current production. Until now, Pohang Iron & Steel Co. has been shielded from direct competition.

Hyundai Motor is also looking to see if the government's new-found commitment to liberalisation means that it will be able to raise money overseas. The government revoked approval for an overseas stock issue two years ago when company founder Chung Ju Yung ran for president. It has never been reinstated. Chung's bid for the presidency has led to difficulties for Hyundai companies trying to raise money locally as well.

In Samsung's case, some critics claim President Kim changed his mind to reward the country's second-largest conglomerate for its contributions to his 1992 election campaign. Others say Samsung persuaded legislators from Pusan — Kim's political base and adjacent to the site of its proposed car factory in Sinho — to lobby on its behalf. Pusan is reeling from the collapse of its shoe industry.

Whatever the truth, the decision has South Korea's major car makers sweating. "This will only weaken the competitiveness of existing auto makers," says Lee Dong Wha, director of the Korean Automobile Manufacturers Association.

Certainly the domestic market will be tougher. Victor Sun, an analyst at Dongbang Peregrine in Seoul, says car sales wil grow only 4-5% annually by the end o the decade. That's down from the double-digit growth it has shown annually since 1984 as the market matures and few Koreans become first-time car buyers.

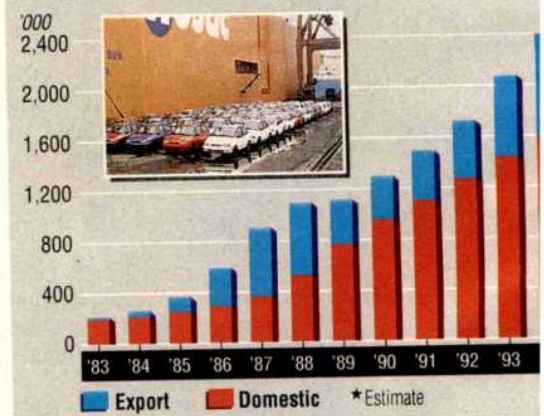
Meanwhile, South Korea's car indu try expects to increase production by tw and-a-half times, to 6 million units a yea by 2000. In 1995 alone, the industry pla to increase its investments in producti lines and model development by 37% Won 3.8 trillion (US$4.4 billion) in 19 "There's no doubt they'll run into sor excess capacity problems," unless th develop an overseas market, Sun note

Moreover, South Korea may be forc to open up its protected car market. Or 2,000 of the more than 1.4 million ca sold there last year were foreign. Pressu is growing from the United States a European Union to open up the market

To ease fears that it will disrupt t domestic market, Samsung Group Cha man Lee Kun Hee has pledged Samsu

Full Throttle

Exports once again power South Korean auto sa



Sources: Korea Automobile Manufacturers Association; Asia-Pacific Inf

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will not "steal" workers from rival car makers and will hire only those who have not worked for a competitor for two years. It also argues that more competition will be good for the market because it will drive down prices, improve quality and raise South Korea's export competitiveness.

Samsung promises to focus on exports — 30% in its first year and 55% by 2002. Achieving that may not be easy, however. Samsung is counting heavily on sales to China and other developing markets in Asia. Critics say Samsung is setting unrealistic export goals. "Nobody who knows anything about the car industry or car exports will believe what Samsung says," says Han Seung Jun, president of Kia Motors. Currently, the export market is divided between Hyundai (65%), Kia (29%) and Daewoo (11%). Of the 2 million vehicles Korea produced in 1993, 31% were exported and roughly the same percentage is forecast for 1994.

Samsung estimates the total cost of the project will reach Won 4 trillion, of which Won 3 trillion will be financed through its own capital and new stock issues. The rest will be raised through overseas borrowing and international bond issues. Nonetheless, jitters over Samsung's move into the car market sent share prices of Samsung Heavy Industries, the Samsung unit involved in the car project, tumbling 18% to Won 32,300 on December 19 from Won 39,300 the day before the government approved Samsung's venture.

Still, it would be a mistake to count Samsung out. When it started making semiconductor chips just over a decade ago, sceptics predicted the effort would end unhappily. Now it is the world's largest manufacturer of DRAM memory chips.

All the parochial criticism aside, many analysts wonder why Samsung would want to enter a cyclical business that doesn't have the same growth prospects that its core electronics business enjoys. At the least, the venture seems like a distraction from the task Samsung has set for itself in the semiconductor business. But the group figures cars are still a growth business, at least in the developing world, and that the experience it garners in cars will help further its other ambitions, notably in aerospace. Whatever Samsung's reasons, its rivals are right to be worried. Except for Hyundai, South Korea's other car makers are ill-placed to withstand new competition.

The most rational solution to the problem of overcapacity might be for Samsung to take over one of the existing car makers. Indeed, Samsung bought nearly 10% of Kia's stock last year before public opposition forced it to back off from what could have been South Korea's first major hostile takeover. Although the other two major producers, Ssangyong and Daewoo, are limping, they are part of large chaebol and won't be forced sellers. ■

Heavy Metal

- Samsung plans to be producing some 65,000 passenger cars in 1998 and 500,000 cars by 2002 — using 95% of its own technology. It will start producing 36,000 small trucks annually starting in 1997.
- Samsung's contract with Nissan will last from eight years from the date it is signed or five years from the date production starts, whichever comes last.
- For passenger-car technology, Nissan will get ¥1.9 billion (US$19 million) in fixed royalties, 1.6-1.9% of the factory price of every car and ¥6.8 billion for technical assistance.
- For small-truck technology, Samsung will pay royalties of ¥14,000 per unit for the first 100,000 trucks and ¥12,600 per truck thereafter on top of an initial payment of ¥680 million.

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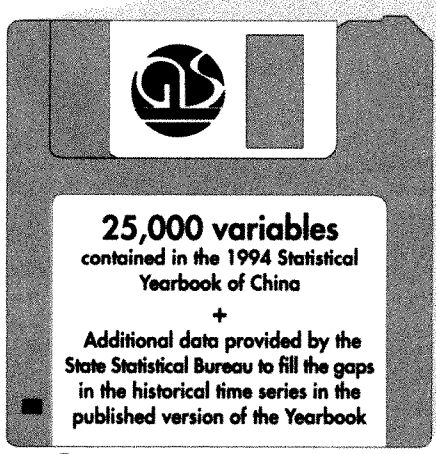

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12.30pm	Far Eastern Economic Review
1.00pm	Trading Day *(Continued)*
5.00pm	Asian Market Digest
7.00pm	The Asian Wall Street Journal On Air
7.30pm	Money Talks
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ECONOMIC MONITOR: VIETNAM

Like Wildfire

Amid a sea of unapologetic capitalism, Vietnam's socialist market economy is poised this year to grow faster than just about all of its high-flying neighbours.

Government economists, discarding earlier forecasts of 8.0% GDP growth in 1994, now say the economy expanded 8.5-9.0%, making the Year of the Dog Vietnam's third consecutive year of 8%-plus expansion. Some say even the revised figures are understated. Investment bank Lehman Brothers projects growth of 10% both this year and next.

Underpinning the expansion is a strong recovery in exports. Lehman Brothers projects 1994 export growth at 27%, up from 15.2% in 1993. Leading exports include oil, marine products, rice, garments and textiles. Imports have moderated from last year's 38% jump but are still likely to rise more than 30% this year, Lehman Brothers says. Leading imports are oil products, fertiliser and steel. Lehman estimates the current-account deficit widened 27% in 1994 to US$960 million.

Responding to Vietnam's steady economic opening, foreign investors have rushed to sign up new projects with the State Committee for Cooperation and Investment. In the first 11 months of the year, the SCCI approved 301 foreign projects with a combined value of US$3.1 billion, easily surpassing the US$2.8 billion approved in 1993.

Since the beginning of 1988, the SCCI has approved 948 foreign-invested projects with a combined value of just over US$10 billion. Oil and gas projects account for about one third of the total, followed by industry, services and tourism.

The government told a November foreign donors' meeting in Paris that it hopes to attract US$20 billion in new foreign investment during 1994-2000. To do so, say many foreign business executives, Vietnam must act forcefully to reduce investment barriers.

"Vietnam is starting to be over-confident in its ability to attract foreign investment," warns James Rockwell, managing director of Vatico, a Hanoi-based consulting firm.

Bureaucratic red tape and delays in obtaining SCCI approval are among the most frequent complaints heard from overseas businessmen. SCCI figures reflect the difficulties in realising investment ideas: Less than one third of that US$10 billion in approvals has been implemented. Almost 10% of approved projects have been cancelled.

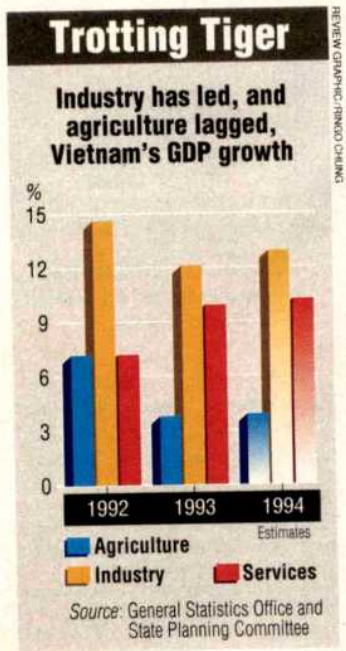
Acknowledging that the investment-implementation rate is too low, the government is considering a regulation that reportedly would make the SCCI more like the one-stop investment-approval agency it was intended to be. Business sources say the change would allow applications automatic approval within 20-30 days unless there's some explicit objection.

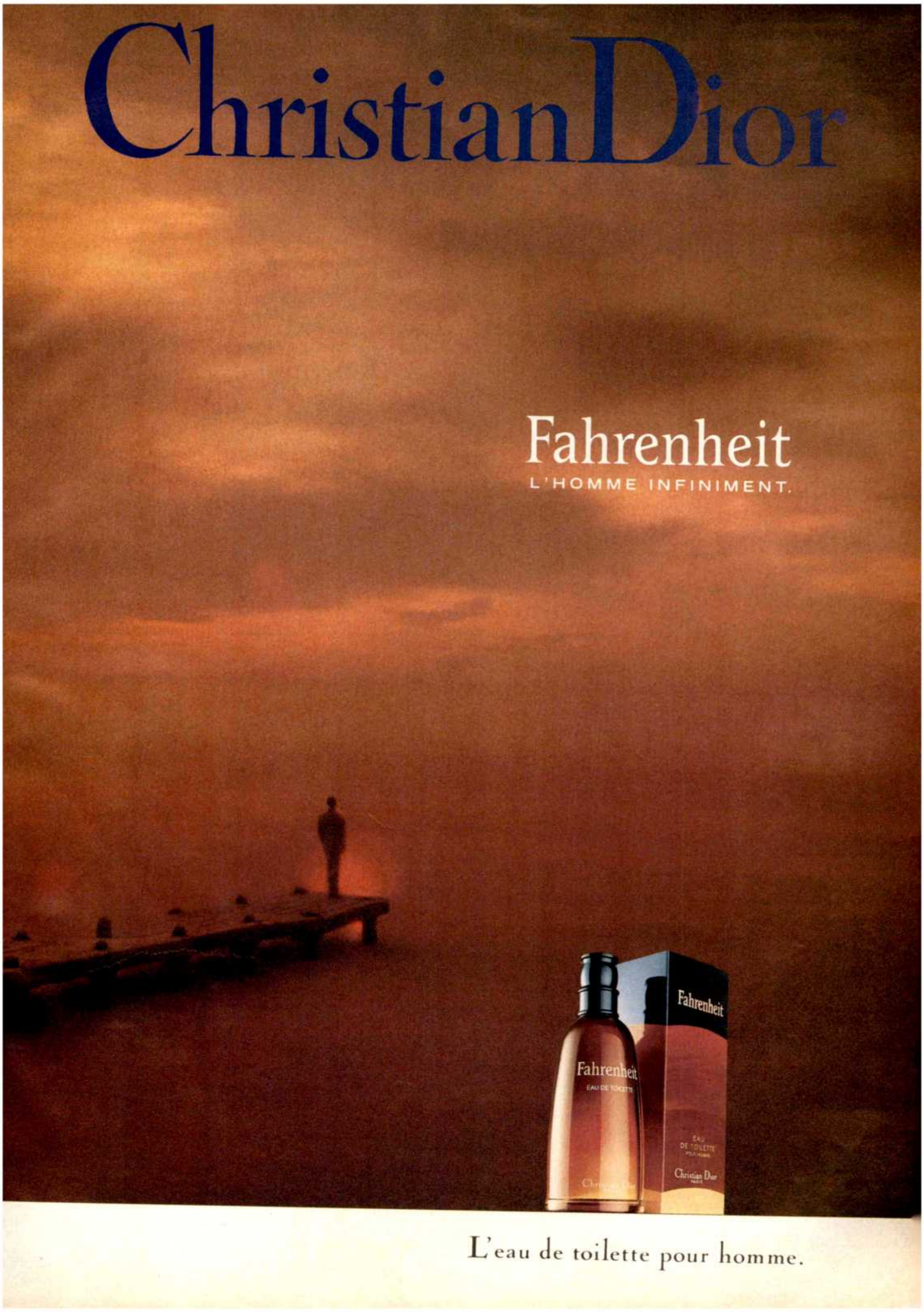
Vietnam's economy has also begun to benefit from another source of external capital: official development assistance. Foreign donors, meeting for the first time in late 1993, approved US$1.86 billion in grants and concessional loans to Vietnam. In November, they pledged another US$2 billion for 1995.

As with foreign investment, foreign aid is arriving more slowly than Vietnam would like. In 1994, only about US$400 million of the amount pledged in late 1993 will be disbursed. The principal obstacle is the government's inability to process and approve aid-funded investment applications. To address the problem, the government in August assigned the State Planning Committee to coordinate and manage incoming foreign aid.

A more immediate concern for government planners is an upsurge in inflation. After dropping to a manageable 5.2% in 1993, inflation ran at 14.4% in the 12 months through November. The primary culprit was higher food prices. Flooding earlier in the year of the Mekong Delta, Vietnam's prime rice-growing area, helped boost prices of the food staple. The state-run *Vietnam News* said higher prices of imported commodities such as cotton and fertiliser also exacerbated inflation.

■ **Adam Schwarz**

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MEDIA

Watch Your Words

Foreign publishers tread warily in Vietnam

By Adam Schwarz in Hanoi

Josephine Toh is learning the hard way that Vietnam's embrace of free markets falls somewhere short of a bear hug. The Singaporean publisher was told in late November that 17,000 copies of the inaugural issue of her glossy women's magazine, *Femme*, were being impounded at the Ho Chi Minh City port.

Whether Toh has fallen foul of Vietnam's press laws is still a matter of dispute. Toh says she was authorised to import the Vietnamese-language magazine by Xunhasaba, a government-owned agency that deals with foreign publications. More damning, however, is that she has been tried and convicted by the Vietnamese media of cultural insensitivity. The offending items seem to be photos of glamorous Asian models posing next to Vietnamese peasants, barefoot children and obviously hungry livestock.

Nhan Dan, the Communist Party's official publication and the country's second-largest daily, was outraged. "Vietnamese women and children have been distorted in an ugly way," the paper said in a strident critique published in December.

Nguyen Thi Van Anh, editor of *New Fashion Magazine*, says *Femme* was barred because its owners "don't understand anything about Vietnam. Toh is a Singaporean woman. She should stick to writing about Singaporean women. Her ideas about Vietnam are 20 years out of date."

The plight of *Femme* illustrates the thin ice foreign publishers tread as they vie for Vietnamese readers. A handful of foreign publishers have gained a toehold in Vietnam, but their presence has clearly alarmed elements of the government.

"The concern is that foreign money is influencing editorial content at Vietnamese publications," says a Western publishing executive in Hanoi. More specifically, government officials fear overseas Vietnamese might use new publications, especially those written in Vietnamese and edited abroad, to criticise the Communist Party and introduce "foreign" political values, says the executive.

Despite the obstacles, foreign publishers have made modest inroads into Vietnam, lured by an emerging market of avid readers. Some 350 Vietnamese publications are already on the newsstands, covering subjects from gardening to economics.

Since foreign publishers may not hold equity in Vietnamese publications, the usual form of partnership is a business

B.J. ADAMS

Vietnam's media boom alarms some officials. *Inset: Femme* was barred.

cooperation contract. *Vietnam Investment Review*, an Australian-managed, Hong Kong-based venture, was the first to enter such an arrangement. In 1991, it signed a 10-year contract with the State Committee for Cooperation and Investment to publish a weekly newspaper.

"We have management rights to handle production, proof-reading and distribution, and the SCCI has full editorial control," says Alex McKinnon, the *Review*'s managing director. The *Review* sells about 17,000 copies a week, 40% of that overseas. Its contract entitles the *Review* to 80% of profits. While the *Review* is just "entering into profitablity," McKinnon says, "it will be five years before we recoup our capital." He says the *Review*'s foreign partners have invested US$1 million, and expect to add another US$1 million over the next two to three years.

The *Review* offers timely, fairly comprehensive coverage of the business environment. Nguyen Tri Dung, deputy editor of the *Review*, defends the paper's reporting on corruption and smuggling cases as "good for progress." He acknowledges, though, that "sometimes we get strong criticism from senior officials."

Still, some foreign readers say the *Review* shuns political analysis and avoids stories that reflect badly on Vietnam. "The SCCI rejects some of our story ideas if they think they will make the country loo bad," concedes a *Review* journalist.

The same delicate balancing act co fronts Swiss publishing house Ringier. "I all our publications, the editors must b extremely careful," says Ringier's repr sentative in Hanoi, Alain Jeannet.

In conjunction with the Association Vietnamese Economists, Ringier produce a Vietnamese-language business weekl *Thoi Bao Kinh Te Vietnam*, and the En lish-language monthly, *Vietnam Econom Times*. Ringier's partner for the *New Fas ion Magazine* is the Communist You Organisation. And *World Affairs Weekl* a Vietnamese-language, foreign-polic digest, is produced with the Foreig Ministry.

Jeannet says the Swiss firm h injected "just less than US$1 million" in the four publications to date. "We expe to reach break-even in two to thr years," he says. "In a market like this, it important to get in early ar look long-term."

For both Ringier and t *Vietnam Investment Revie* the long-term potential li with Vietnamese-langua publications. Says Jeann advertisers "realise that if th want to reach decision-make and consumers, they have be in the Vietnamese papers.

But as *Femme* shows, loc language papers are riski "The Vietnamese-language pu lications have to be more caref because they are seen to be mo sensitive," says Jeannet.

The early players have reason to careful. Both see that the real mone making potential lies in expanding in related fields. McKinnon says the *Vietn Investment Review* "is keen to get involv in television in Vietnam under a busine cooperation contract." The *Review* w seek help from Australian Consolidat Press, which bought 46% of the *Revie* Hong Kong-based partner this year. ACP sister company owns Australia's l gest television station, Channel 9.

Ringier, says Jeannet, "is doing an tensive review of opportunities for bre ing into printing." About half of Ringie US$1 billion in worldwide revenue l year came from printing; in Asia, Ring prints *The Economist*, *Newsweek* and *F tune* in Hong Kong.

One positive development for the t foreign publishers, provided they av the problems afflicting *Femme*, is that n competitors may find it hard breaki into the market. Regional newspap such as the *Hongkong Standard* and *Bangkok Post* are reportedly seeki partnerships in Vietnam, but the ne term prospects of government appro don't look good.

BUSINESS BRIEFING

EUROPEAN UNION

Waning Privileges

Singapore, South Korea and Hong Kong will lose their tariff benefits within the European Union from January 1996 for exports of consumer electronics, textiles, clothing and jewellery, EU foreign ministers said. The three will face an initial 50% reduction in their quotas for these goods from April 1995.

PHILIPPINES

Ayala Succession

Jaime Augusto Zobel de Ayala II will assume the presidency of premier property conglomerate Ayala Corp. on January 1. The 36-year-old replaces his father, Jaime Zobel, who is retiring at the company's mandatory retirement age of 60.

JOSE REINARES

The new chief of Ayala Corp.

VIETNAM

Tougher Investment Rules

The government tightened entry rules on foreign investment in the hotel, garment and shoe industries to provide more protection to domestic firms. New foreign joint ventures in garments and shoes must export at least 80% of production; the figure rises to 90% for wholly owned foreign businesses. New hotels in Ho Chi Minh City that involve foreign investors must have at least 150 rooms and US$8 million in investment capital; in Hanoi, the floor is 100 rooms and US$5 million.

MALAYSIA

Good Indications

Finance Minister Datuk Seri Anwar Ibrahim said the economy grew 8.9% in 1994's third quarter, up from 8.3% in the two preceding quarters and the same period last year. Inflation moderated to an annual 3.2% from 3.5% in the previous quarter.

Alcatel Wins Contract

Malaysian Resources, a media and telecoms company, awarded a M$500 million (US$196 million) contract to French telecoms giant Alcatel to supply and install the initial phase of Malaysia's first digital cellular-phone system. The project, expected to take five years to complete, will cost M$1.2 billion.

UNITED STATES

AT&T Cable Contract

AT&T was awarded a US$1.2 billion contract to lay a 17,000-mile undersea fibre-optic cable system connecting Japan and Britain. Flag Ltd., a consortium that includes Nynex of the U.S. and investors from Japan, Saudi Arabia and the United Arab Emirates, heads the project. AT&T will work with Kokusai Denshin Denwa Submarine Cable Systems of Japan.

JAPAN

Kobe Ups Capacity

Kobe Steel said that it would double the capacity of KTI Semiconductor, a wafer-making joint venture with Texas Instruments, to 25,000 wafers a month. Kobe and TI will spend ¥50 billion (US$500 million) to expand the KTI plant at Nishiwaki, in western Japan.

B.J. ADAMS

More choice on the way for Malaysian phone users.

CHINA

Pink Slips Coming

Beijing will lay off 2 million government employees during 1995 in line with personnel cuts mandated by China's parliament, said Personnel Minister Song Defu. The cuts will affect all government offices and trim some by up to 20%.

HONG KONG

Broadcast Rules Eased

The government approved changes to broadcasting rules that will open the market to more competition. It lifted a three-year-old ban that prevented StarTV from airing Cantonese-language programmes and approved in principle a licence for Galaxy Uplink, a subsidiary of local network Television Broadcasts, to transmit satellite-television signals from the colony.

INDIA

Reliance Finance Arm

Rapidly expanding textile and petrochemicals group Reliance Industries is boosting its finance affiliate Reliance Capital Finance Trust with a private share placement to institutions that is expected to raise about Rs 4.5 billion (US$143 million). The Reserve Bank of India (the central bank) is currently weighing an application for a commercial-banking licence, but the Reliance finance arm is already cleared for various non-bank lending and securities-trading activities.

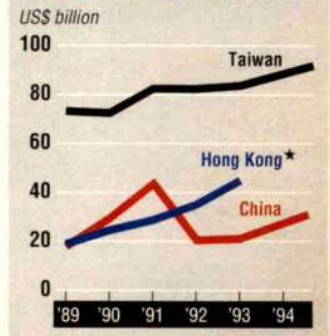
THAILAND

Alphatec in Shanghai

Alphatec Electronics, the country's largest integrated-circuit assembler, is joining with China's Shanghai Hua Xu Microelectronics and America's Microchip Technologies to build a US$75 million plant to make integrated circuits in Shanghai. The plant, due to open in 1996, will have an initial capacity of about 200 million units per year.

Indicators

Foreign-exchange reserves in Taiwan, Hong Kong and China, 1989-94



★1994 figure not available

Source: Barclays de Zoete Wedd

REVIEW GRAPHIC: SIMON WONG PHOTO: SUSUMU TAKAHASHI/REUTER

PRICES & TRENDS

Commodities

Latest sale to Dec. 19		Latest	Previous week	3 months ago	Year ago
Gold	London (2)	378.90	376.90	389.75	389.50
Copper	New York (3)				
Current delivery (Dec.)		138.85	135.15	122.30	79.95
Jan. delivery		138.75			
Aluminium	London (7)				
Current delivery (Dec.)		1,893.00	1,849.50	1,585.50	1,094.00
Tin	Kuala Lumpur (1)	14.90	15.13	13.17	12.04
Cotton	New York (3)				
Current delivery (Mar.)		83.17	83.70	70.03	65.49
May delivery		83.61			
Rubber	Kuala Lumpur (8)				
Current delivery (Jan.)		387.00	372.50	331.00	209.00
Feb. delivery		387.00			
Jute	Dhaka (11)	338.00	338.00	338.00	260.00
Palm Oil	Kuala Lumpur (4)				
Current delivery (Jan.)		1,645.00	1,793.00	1,410.00	937.00
Mar. delivery		1,550.00			
Sugar	New York (3)				
Current delivery (Mar.)		15.13	14.33	12.65	10.69
May delivery		15.16			
Pepper	Singapore (9)				
Sarawak Asta blk 100%		335.00	335.00	322.50	210.00
Wheat	Chicago (5)				
Current delivery (Dec.)		379.40	379.20	377.00	371.40
Mar. delivery		393.20			
Maize	Chicago (6)				
Current delivery (Dec.)		218.20	218.60	216.60	288.00
Mar. delivery		229.40			
Rice	Bangkok (7)				
5% white fob		300.00	300.00	305.00	335.00
Soyabeans	Chicago (5)				
Current delivery (Jan.)		566.20	564.20	559.20	686.60
Mar. delivery		576.20			
Cocoa	New York (7)				
Current delivery (Mar.)		1,305.00	1,252.00	1,338.00	1,209.00
May delivery		1,315.00			
Coffee	New York (3)				
Current delivery (Dec.)		158.50	160.30	216.15	78.85
Mar. delivery		158.55			
Petroleum					
Sumatran light	Tokyo (10)	16.20	16.25	16.40	14.00
Brent	London (10)	15.93	15.94	16.22	13.47

(1) M$ a kg (2) US$ an oz (3) US¢ a lb (4) M$ a tonne (5) US¢ a 60 lb bushel
(6) US¢ a 56 lb bushel (7) US$ a tonne (8) Int 1RSS M¢ a kg (9) S$ a 100 kg (10) US$ a barrel
(11) BWD, Chittagong/Mongla, US$ a tonne *Source*: Telerate, International Jute Organisation

Currencies *US$1 worth:*

Dec. 19		Spot rate†	Previous week†	3 months ago†	Year ago†
Australia	dollar	1.2895	1.2917	1.3459	1.4728
Bangladesh*	taka	40.20	40.20	40.20	39.75
Britain	pound	0.6407	0.6391	0.6375	0.6723
Brunei	dollar	1.4662	1.4667	1.4805	1.5937
Burma**	kyat	5.9068	5.9206	5.8243	6.1993
Canada	dollar	1.3944	1.3878	1.35	1.3438
France	franc	5.419	5.4145	5.302	5.827
Germany	mark	1.5732	1.5728	1.5566	1.712
Hong Kong	dollar	7.7375	7.736	7.7275	7.7256
India*	rupee	31.44	31.3725	31.68	31.39
Indonesia	rupiah	2,198.00	2,196.00	2,180.00	2,110.00
Japan	yen	100.22	100.03	98.63	110.58
Macau*	pataca	8.10	8.10	8.10	8.10
Malaysia	dollar	2.5658	2.5633	2.5569	2.5515
Nepal*	rupee	49.35	49.40	49.35	46.3772
New Zealand	dollar	1.5645	1.5755	1.6567	1.78
Pakistan	rupee	30.71	30.7292	30.6194	30.0699
Papua N.G.	kina	0.84	0.8645	0.9263	0.9799
Philippines	peso	24.117	24.155	25.583	27.685
Singapore	dollar	1.4662	1.4667	1.4805	1.5937
South Korea	won	793.10	792.70	799.70	810.40
Sri Lanka	rupee	48.218	48.043	47.974	47.926
Switzerland	franc	1.3318	1.333	1.2878	1.4555
Taiwan	NT dollar	26.425	26.418	26.2185	26.69
Thailand	baht	25.10	25.10	24.95	25.47

Communist countries: China US$=Rmb 8.4835 HK$=Rmb 1.0963 Laos US$=Kip 721
Vietnam US$=Dong 11.080
Other: Commonwealth of Independent States US$=Rouble 3.395
SDR1=US$1.4504 ECU1=US$1.2108 S$1=M$1.75145 Cambodia US$=Riel 2.593

**Unofficial rate: US$1=Kyat 100-120 *Official rate †Middle rate
Source: Telerate for spot rates, Dao Heng Bank Ltd. for official rates

Currency Deposit and Bond Yields

Eurocurrency and Asian currency unit deposit rates (%)†

Dec. 19	1 month	3 months	6 months	12 months	10 year govt bonds yield
US$	6.00	6.3125	6.75	7.50	7.78
Sterling	5.6875	6.00	6.375	7.1875	8.54
Yen	2.25	2.25	2.3125	2.5625	4.57
Swiss Fr.	3.9375	4.1875	4.4375	4.6875	—
Dm	5.4375	5.375	5.4375	5.75	7.45
A$	7.43	7.75	8.62	9.75	10.20
C$	5.43	6.50	7.25	8.00	9.10
ECU	5.9375	6.0625	6.25	6.75	8.50

†Offered rate *Source*: Telerate, Salomon Brothers

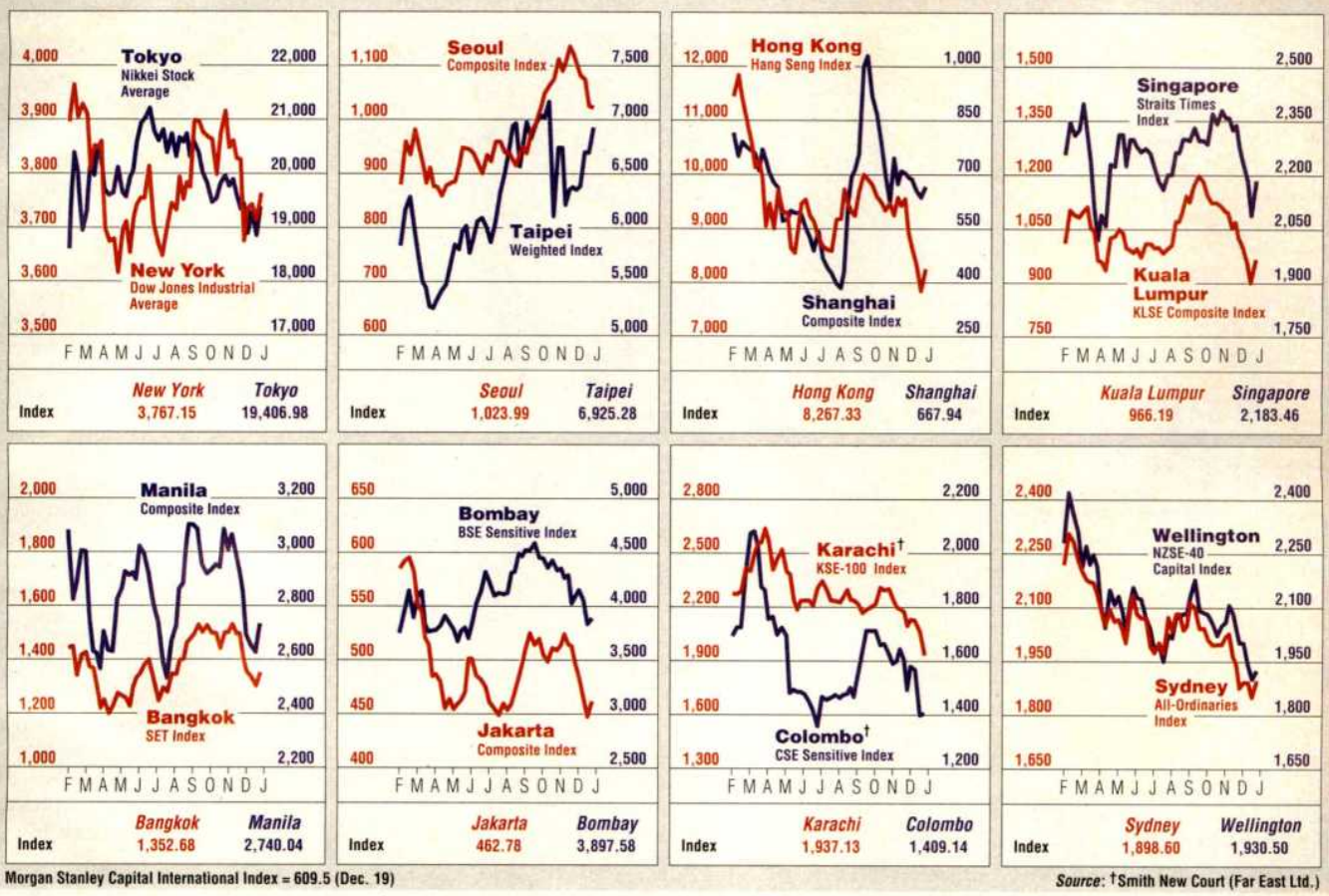
Economic Indicators, Selected Asian Countries

	Australia	China	Hong Kong	India	Indonesia	Japan	Malaysia
Economic Growth % (real) (1)							
1993	4	13.4	5.9	4(4)	6.7	0.03	8.5
1994	4.5	9	4.9	5(4)	7	2.6	8.2
International Reserves (5)							
Latest	US$11.89b (Sept)	US$33.10b (Jun)	US$43.00b (Dec 93)	US$19.17b (Sept)	US$11.31b (Aug)	US$120.67b (Sept)	US$30.21b (Jul)
Year earlier	US$11.40b	US$20.06b	US$35.25b (Dec 92)	US$7.99b	US$11.10b	US$98.80b	US$17.94b
Trade Balance (total merchandise)							
Latest 3 months	-US$1.74b (Jul-Sept)	+US$1.88b (Jun-Aug)	-US$1.32b (Aug-Oct)	-US$0.63b (Aug-Oct)	+US$2.55b(8) (Jun-Aug)	+US$27.30b (Aug-Oct)	+US$0.22b (May-Jul)
Previous 3 months	+US$0.29b	-US$0.73b	-US$3.37b	-US$0.79b	+US$1.86b	+US$30.18b	-US$0.52b
Year earlier	-US$0.19b	-US$2.71b	+US$0.63b	-US$0.18b	+US$1.95b	+US$30.94b	+US$0.63b
Exports (6)							
Latest 3 months	US$11.90b	US$31.46b	US$42.20b	US$6.30b	US$10.61b(8)	US$101.97b	US$14.73b
% change previous 3 months	-1.9	+17.0	+10.4	+6.2	+13.6	+6.0	+14.7
% change year earlier	-0.2	+41.6	+16.1	+25.0	+16.3	+10.1	+21.9
Imports (7)							
Latest 3 months	US$13.64b	US$29.58b	US$43.51b	US$6.93b	US$8.06b(8)	US$74.67b	US$14.51b
% change previous 3 months	+15.3	+7.1	+4.6	+3.0	+7.8	+13.1	+8.5
% change year earlier	+12.6	+18.7	+21.8	+33.0	+12.4	+21.1	+26.7
Consumer Prices							
Base	Jul 89-Jun 90=100	Sept 1993=100	Oct 89-Sept 90=100(2)	1982=100	Apr 88-Mar 89=100	1990=100	1990=100
Latest 3 months index average	111.9 (Jun-Sept)	127.3(11) (Sept)	150.3 (Aug-Oct)	287.0 (Aug-Oct)	160.4 (Aug-Oct)	107.4 (Aug-Oct)	117.2 (Jul-Sept)
% change previous 3 months	+0.6	n.a.	+2.9	+1.2	+2.5	+0.4	+0.3
% change year earlier	+7.9	+27.3	+8.8	+10.9	+9.3	+0.4	+3.3
Money Supply (3)							
Latest	A$251.0b(9) (Sept)	Rmb 3,322.66b (Jan-Mar)	HK$1,059.32b (Oct)	Rs 4.81t(9) (Oct)	Rps 165.46t (Oct)	¥522.74t (Sept)	M$155.86b (Sept)
% change previous month	+0.5	+10.5(10)	+0.1	+2.9	+1.7	+0.3	+1.8
% change year earlier	+7.9	+29.2	+13.9	+11.1	+19.3	+2.3	+21.5

(1) Official and other estimates of GDP (GNP in China & Japan for fiscal year) (2) Consumer Price Index A (3) M2 or currency plus bank deposits (4) To March (5) IMF definition of reserves minus gold except for Singapore

Stockmarkets

■ ■ ■ Most markets in the region rebound ■ ■ ■ Hong Kong recovers 5% ■ ■ ■ Kuala Lumpur picks up 7% ■ ■ ■ News of stronger economic ties to China buoys Taipei ■ ■ ■ Manila, Bangkok, Singapore rise slightly in week ended on December 20 ■ ■ ■



Morgan Stanley Capital International Index = 609.5 (Dec. 19)

Source: †Smith New Court (Far East Ltd.)

Philippines	Singapore	South Korea	Taiwan	Thailand
3 4.5	9.8 6-8	4.9 6.3	6.03 6.2	7.9 8.3
US$6.59b (Sept) US$4.13b	US$53.51b (Jul) US$44.29b	US$22.34b (Sept) US$19.67b	US$91.78b (Sept) US$84.92b	US$28.98b (Sept) US$24.40b
-US$2.14b (May-Jul) -US$1.78b -US$1.52b	-US$0.94b (Jun-Aug) -US$2.00b -US$2.99b	-US$1.61b (Aug-Oct) -US$1.20b +US$0.66b	+US$2.96b (Aug-Oct) +US$2.31b +US$2.39b	-US$2.24b (Aug-Oct) -US$2.46b -US$1.15b
US$3.42b +16.8 +21.0	US$25.81b +11.4 +38.0	US$24.84b +3.8 +16.8	US$24.37b +3.7 +12.7	US$11.51b +4.5 +15.2
US$5.56b +18.1 +27.9	US$26.75b +6.3 +23.3	US$26.44b +5.3 +28.4	US$21.41b +1.0 +11.3	US$13.75b +2.1 +23.3
1988=100 197.1 (Jul-Sept) +2.5 +9.2	Sept 87-Aug 88=100 120.0 (Jul-Sept) +1.0 +3.9	1990=100 130.8 (Sept-Nov) +0.3 +6.1	1991=100 113.8 (Jul-Sept) +2.0 +5.9	1986=100 144.2 (Aug-Oct) +1.9 +5.5
P487.67b (9) (Jul) +1.8 +28.7	S$88.33b (Aug) +1.2 +14.0	Won 123.51t (Sept) -0.1 +10.9	NT$11.08t (Sept) +0.8 +13.9	Baht 2,658.2b (Sept) +1.6 +13.1

(6) fob (7) cif (8) Including petroleum (9) M3 (10) % change over past 3 months (11) One month *Source*: Official statistics

Interest Rates (%)

Dec. 19	Prime lending	Interbank 1 month†	Interbank 3 months†	Interbank 6 months†
Australia	10.90	7.625	8.01563	8.875
Britain	6.25	6.00	6.375	7.00
Hong Kong	8.50	5.9375	6.25	6.875
Indonesia	21.00	15.25	15.50	15.75
Japan	*4.90			
	**3.00	2.375	2.375	2.50
Malaysia	6.50	5.20	5.25	6.20
New Zealand	9.50	9.10	9.51	9.82
Philippines	14.50	9.375	9.375	8.6875
Singapore	6.25	3.6875	4.0625	4.375
South Korea	††13.70	—	—	—
Taiwan	7.625	—	—	—
Thailand	11.75	8.50	9.00	—
U.S.	8.50	6.125	6.375	6.875

*Long term **Short term ††Monetary Stabilisation Bond (1 year)
†Offered rate *Source*: Telerate and REVIEW Data

SHROFF

YEAR OF THE PIG

Maximum Fearish

The Year of the Dog is ending not with a bark but with a whimper, and, in Hong Kong at least, few fortune tellers dare forecast a traditional Lunar New Year equities rally for 1995. Instead, as they contemplate the Year of the Pig, it's anxiety rather than greed they discern on the horizon.

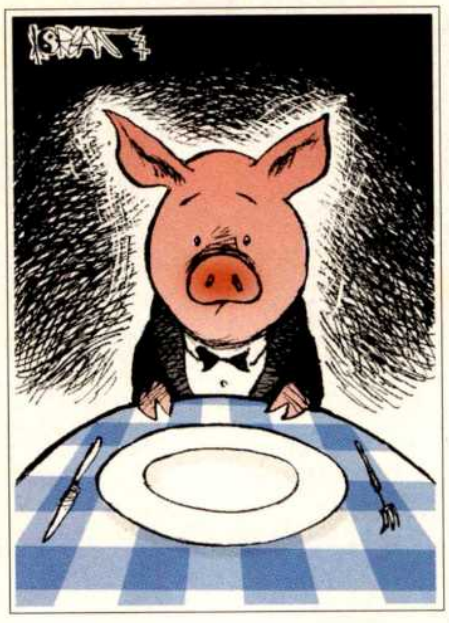
Still, it's possible to distinguish between those facing a propitious year and those who aren't. Among the favoured is anyone looking to buy a used Mercedes-Benz: It's easy to foresee an abundant supply coming to market. The sentimental will also have a good year. In certain of the colony's upscale areas, apartments are being spared the wrecker's ball as declining arrivals of investment bankers sap demand for ever more luxurious digs.

High on the list of those facing a bad 1995 are folks who thrived in 1994. But take heart: Circulating the territory's fax machines is a list of 10 good things your typical Goldman Sachs partner can say about receiving a less-than-stunning bonus this season. Among the blessings he (and the occasional she) can count:

- Helping dispel the myth that investment bankers are overpaid.
- Balancing one's checkbook is easier with smaller numbers.
- Less need to lie to tax authorities.
- The warm feeling that comes from working for a non-profit organisation.

Also among the no-longer-blessed are savvy Hong Kongese who bought property in China. They're now being asked to make final down payments and take possession of flats bought unfinished in Guangzhou, Shanghai and Beijing. Alas, they're discovering that "finished" doesn't mean in China what it does elsewhere. In the Greenery, a Hutchison project in Guangzhou, for example, the closets are too small to accommodate overcoats. In one Beijing project where buyers were promised eight elevators, only two have been built. Tenants have vanished almost as quickly as the construction workers who were supposed to provide the swimming pool and tennis courts.

China, it seems, has been everybody's favourite charity in recent years. Kazuo Wada, head of Japanese retail chain Yaohan, was particularly solicitous of his Beijing employees (his partner there is China Venturetech, whose shareholders include the finance and science ministries).



In 1993, the staff made a fortune on arbitrage between the official renminbi rate and the rate they could get for their customers' foreign-exchange coupons.

In 1994, when that game ceased with reunification of the currency, the staff helped themselves to merchandise instead. Japanese bankers in the Chinese capital say the incidence of shoplifting in Beijing Yaohan is 10 times that at its shops in Japan — and most of it is committed by Yaohan salespeople. China, which in 1994 got almost all its money on what most consider concessional terms, can expect less magnanimity this year.

If nothing else, the Year of the Dog was rich in lessons about why foreigners should give concessionary terms to the Chinese. British negotiators, unfortunately, got only the short course: Their two centuries or so dealing with the Middle Kingdom give Beijing only minimal claims on British generosity.

The Japanese, on the other hand, have 2,000 years of history to help explain why their banks and leasing companies aren't being repaid loans which financed everything from capital equipment to karaoke bars. Indeed, it turns out that the Japanese owe the Chinese 2,000 years of royalties (payable in hard currency, of course) for the use of Chinese chopsticks and Chinese characters (in addition to a penalty for incorrect strokes).

Take that obscure fact into account, then recalculate China's trade balance with the rest of the world, and you immediately understand why the renminbi has been so strong recently: It's being supported by insider dealings among informed Japanese China traders.

Perhaps the only sure way to capitalise on the China boom in 1995 is to take a stake in a Las Vegas casino: You're assured a steady stream of traffic as Chinese corporate managers, bankrolled by their underwriters, drop in between U.S. roadshow presentations (that's why the Los Angeles stop is usually on a Friday or a Monday). A trip to Las Vegas, Shroff believes, might even shed light on the unaccounted-for US$10 billion which appears regularly in the errors and omissions column on China's balance-of-payments data but hasn't yet showed up anywhere else.

In late 1993, when Barton Biggs returned from China, he announced (to the horror of his Morgan Stanley colleagues, it must be admitted) that he was overfed and maximum bullish. As those who took his advice then might now be wondering — along with Beijing aficionados of McDonald's — where's the beef?

Lehman Brothers, for one, is wondering. The U.S. investment bank is suing to retrieve US$52 million from China's Minmetals, which threatened to file a countersuit alleging that Lehman "lured" an inexperienced Minmetals employee into risky, unauthorised currency transactions. "Ridiculous," says a Lehman official: Minmetals has "an active imagination, but absolutely no understanding of the relevant facts."

Shroff didn't hear words like that in polite company a year ago. Maybe China is losing its charm at long last. Indeed, India seems already to have replaced China as the region's investment darling. Generous foreigners poured more than US$3 billion into overseas Indian equity issues in 1994. The Reliance Industries group was so moved that it gave foreigners even more chances to support the company (never mind the massive dilution of existing stakes).

Farther west, in Pakistan, Shroff marvelled at the audacity of bankers who managed to sell off Pakistan Telecom without even bothering to do diligence — and then bragged about it.

Fortunately, investors were still in a generous mood when the deal was done in the dog days of summer. Equities will have their year, once again. But in the meantime there may be some hungry piggies. ■ **Henny Sender**

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PROFILE

Wang Jin
Beijing

Passion Statement

Avant-garde artist concocts social commentary from art

By Matei Mihalca

Wang Jin's shoulder-length hair and all-black outfits must have frightened farmers in rural Daxing county. As they worked outside Beijing, in fields severed by a railway line under construction, Wang staged an unusual critique of materialistic culture in contemporary China.

Like a magician bent over a metal jar, Wang prepared a peculiar potion. He mixed red paint with thousands of U.S. dollars' worth of products — many of them alien to local farmers, including facial cream, Ivory soap, Coke, Contac cold-relief pills and virility tablets. "Chinese society, it's all in here," he says of his liquid kaleidoscope. Wang then applied his concoction to 200 metres of metal rail tracks and wooden sleepers.

The Wang touch.

Wang, 32, sees this work as a commentary on the economic effervescence that is transforming China. It reflects the railroad's impact, he says, which will change the face of Daxing county when it links Beijing to Kowloon in 1997.

"Red is the colour of the revolution, but also that of lipstick and nail polish," Wang notes. "It is also the only [colour] trains are scared of."

Trains won't likely come to a halt at the sight of Wang's red rails. But he feels it's his duty to make people stop and think. "My work is distinctly social," he notes, pointing to the components of his red potpourri and to a mural of U.S. dollar bills he painted on centuries-old bricks from the Forbidden City.

"Beauty products beautify the world, medicines cure its ills," he says of his two favourite ingredients. And, he adds drily, both are in growing demand in China today.

Wang emphasises medicine in his work. He sees himself akin to a doctor (rather than a make-up artist) who examines China and prescribes a potion to heal its ailments. The government doesn't like his diagnoses: Beijing deems Wang's brand of conceptual art unacceptable. When he enters the official China Art Gallery, a minder joins him for the tour — just to ensure Wang won't engage in some wacky counter-revolutionary performance art.

At first sight, Wang's bravado contrasts sharply with his upbringing: He grew up in a military compound. The access to information it offered, he says, helped foster his artistic interests.

"My father spent his whole life fighting for the revolution," says Wang, who is no longer welcome in his family's home. "He thinks I'm up to no good. But if my father opposes my work," he adds with a smile, "then I know I'm on the right track."

Watching his father's colleagues in the shower triggered his interest in drawing. "Stripped of their uniforms, they were so different from real life," he explains. "But I discovered that, when nude, everyone's the same." After graduating from the prestigious Zhejiang Institute of Fine Arts, Wang was sent to the Beijing Fashion Institute to teach drawing; ironically, his assigned specialty was nude sketchings.

But Wang eschewed figure-painting for art as social commentary. He resigned from his post in 1992 and has since relied on selling traditional oil paintings — not his avant-garde events — to make a living. He has never worked outside China, although his wife went to study design in the United States about five years ago and has not returned.

"Walls," his first project as an independent artist, was staged in an area of demolished traditional one-floor houses in downtown Beijing. Then, as now, Beijing tore down the capital's old neighbourhoods to make way for five-star hotels and office blocks. "I'm interested in expressing feelings," Wang says. "Not my own, but common sentiments."

Using thick strokes of Chinese black ink, Wang painted chairs, tables and vases on walls still standing amid the rubble. "I can't rebuild the past," Wang explains, "but I can evoke it."

His critics remark that Wang's colour splashings are only a step above vandalism. "It's paradoxical that Wang objects to China's growing industrialisation and commercialisation while adding to one of their worst effects: pollution," says a Beijing journalist. "Most contemporary Chinese artists evoke the same binomes: past-present, East-West, communism-capitalism. It's time to go beyond American dollar signs."

He may have a point. But Wang spruces up his tired theme with a poignant dash. With a French cologne spray, he drew contours of images on a derelict wall inside the Forbidden City. The scent lingered briefly on the bricks, then vanished. "That's precisely the point," he says of lost images. "So many of the things in our lives are ephemeral." ■

Matei Mihalca is a graduate student in Chinese history at Harvard University.

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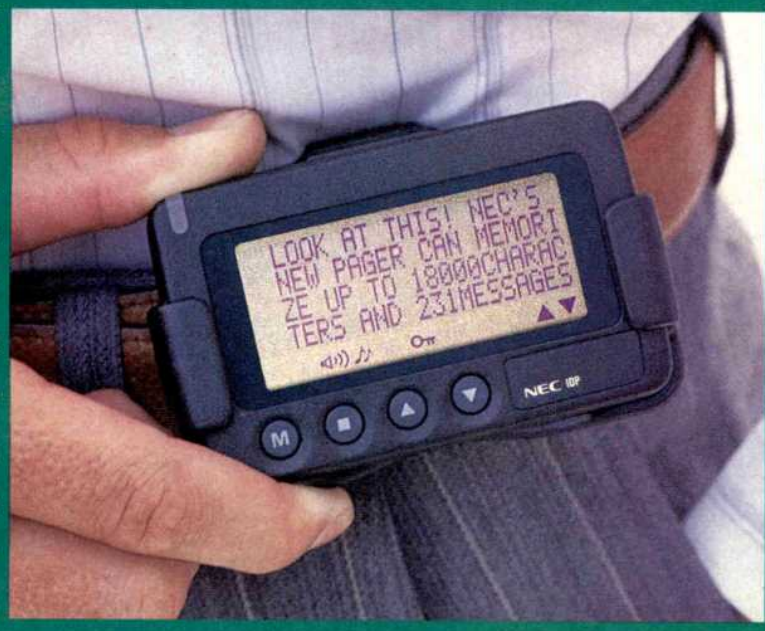

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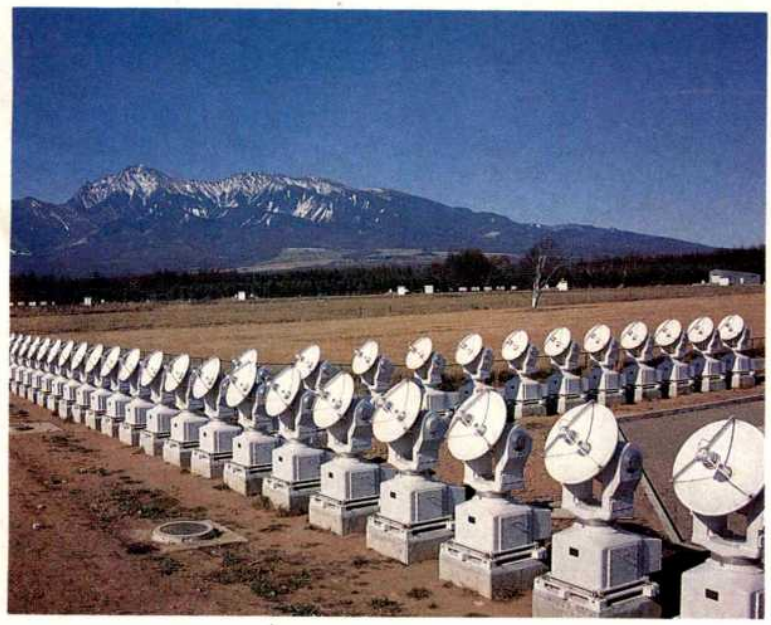

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REVIEW

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Bankers Turn Cautious

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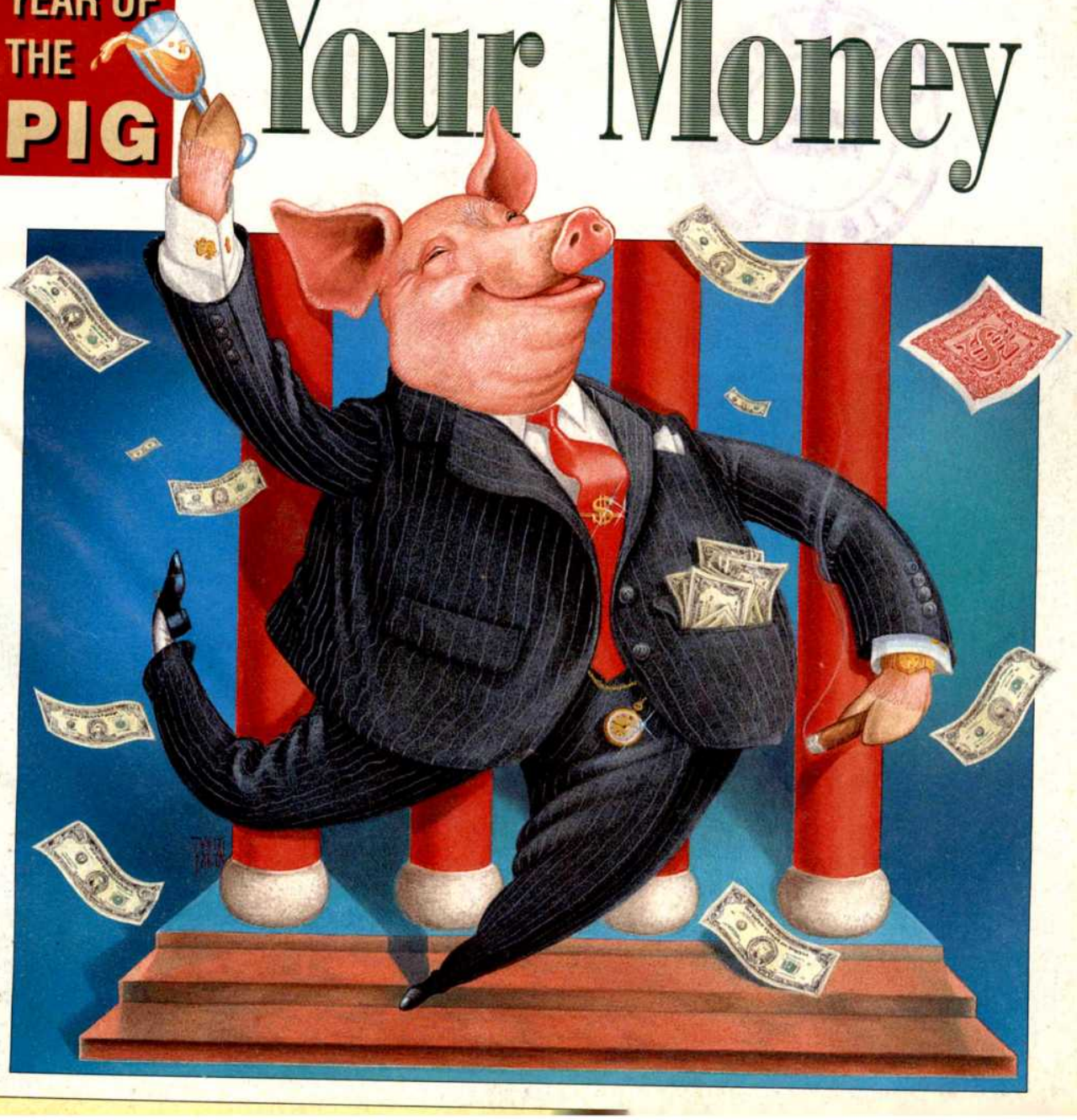
1995
YEAR OF THE PIG

Where to Put Your Money



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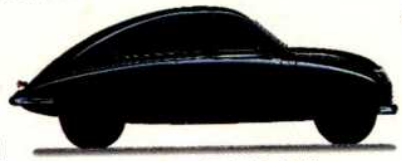

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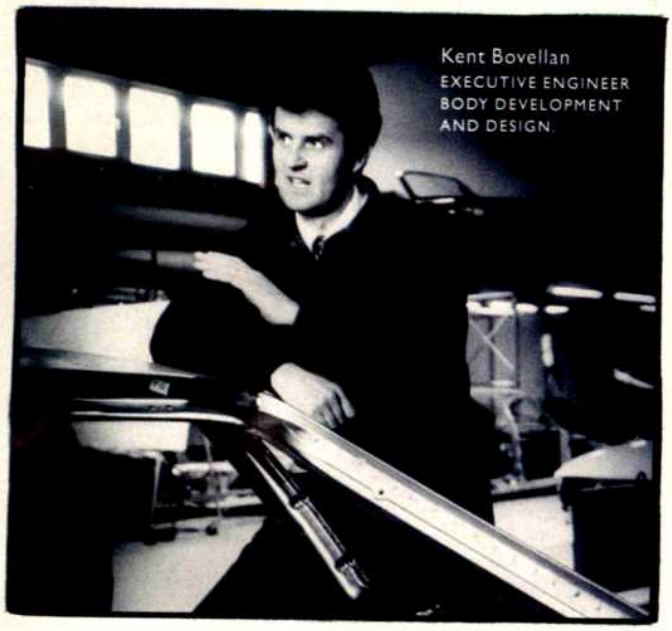

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LETTERS

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Gatt-flies

Your November 24, 1994 editorial **Gatting Even** demonstrated your utter lack of knowledge of Gatt itself. No Gatt members, particularly the developed countries, have ever been Gatted for their trade policies. In fact Gatt has been effective only to the extent its provisions have not been inconsistent with existing legislation of its contracting parties, which primarily means the United States.

Even so, when agricultural imports threatened the interests of American farmers in the mid-1950s, the U.S. immediately erected trade barriers in defiance of its Gatt obligations and then legalized these barriers through a Gatt waiver, which is still valid. In the 1960s, when threatened by textile imports from the developing world, the developed countries divorced the textile sector from the Gatt rules by a separate regime, the Gatt-illegal Multi-Fibre Arrangement. Worse, the Europeans and North Americans have obtained more privileges by forming trade blocs among themselves. As from the end of the 1960s, the developed countries have offered the developing countries non-reciprocal trade privileges to "enable" them to trade and develop in Gatt. No one plays by the same rules in Gatt, which is why it is the most complicated international institution the world has ever seen.

WILLIAM MCGURN

To Gatt or not to Gatt?

In this context, China is certainly not ready for Gatt membership as such, but neither is any other country. Given all the pros and cons, Gatt membership may not necessarily mean privileges. To put it plainly, it may even be more beneficial for China to stay outside Gatt and try to settle its trade relations with its trading partners through bilateral treaties.

GUO YUFANG
International Centre for Chinese Economy and Law
The Hague

Deflated

Apropos your December 22, 1994 Economic Monitor on Malaysia [**Seeing Is Believing**], I do not think economic watchers should get particularly worked up about the representativeness of the Malaysian consumer price index in measuring the actual increase in the cost of living locally. Bank Negara Malaysia itself had this to say in its 1993 report: "The CPI is not a cost of living index as it does not take into account all the relevant factors which are likely to affect the changes in the cost of living. Other factors such as change in income, change in consumption pattern and change in household size must also be taken into consideration to arrive at a meaningful estimate of the cost of living index. Since the CPI does not measure all these changes at the same time, it cannot, therefore, be treated as a cost of living index."

The Malaysian CPI measures the weighted average change in price for a particular basket of goods. But that basket may be very different from that purchased by a particular person. A Kuala Lumpur yuppie who spends 30% of his income on rent (which has gone up 50% in the last two years) and 20% on food (which has remained relatively stable because of price controls), for example, would have a very different perception of the inflationary situation compared with the picture given by the official CPI. This latter assigns a mere 20% weight to "rent, fuel and power" while assigning 34% to food. According to the Department of Statistics, the former component of the CPI has gone up 5.9% in price and the latter 7.9% over the last two years.

It is therefore not at all surprising that the CPI has changed so little over the past few years. Critics who think the government is fudging the inflation figures are barking up the wrong tree. I am willing to concede that the figures as published are absolutely accurate in so far as the official basket of goods are concerned. But would I agree with the goods selected for the basket, or the relative weights assigned?

The more important figure here is the GDP deflator. Using this figure economists measure the real as opposed to nominal GDP and hence arrive at real growth. Critics who are miffed by the 3.7% or so inflation rate shown by the CPI will probably be semi-apoplectic to learn that GDP deflators of 1.8% and 2.7% for 1993 an 1994 respectively are used to compute the real GDP.

NEOH SOON KEAN
Penang

Skirting the Issue

The profiles in your recent 20 Years Of Asian Growth special pullout section [Nov. 24, '94] clearly aim to show the human face behind Asia's economic successes. However, the line between enlivening an interview with personal details and embroidering a piece with gratuitous sexism is a fine one that has been transgressed in your profile of business executive Catherine Yan.

Please tell me the relevance of the latter comment in the following sentence: "'It's a people business that requires good interpersonal skills,' says Yan, who wears a tight miniskirt to an interview." Is Louise do Rosario suggesting that Yan is using the "best of her abilities" as many Hong Kong women are doing, according to an earlier bit in the article?

The profile only adds to the sexism that Yan supposedly battles with daily.

DIANE MILLIS
Editor
Asian Communications
Sutton, Surrey
Britain

English Identity

The slow but sure attempt to bring English as one of the media of instruction in Malaysian universities [**Yes to English**, Regional Briefing, Dec. 15, '94] is a sad reflection of how highly inconsistent is the government's education policy. While English will certainly enhance Malaysia's integration into the global market, it is not clear it will help Malaysians build up a strong sense of identity. The greatest irony is the fact that those who were the greatest advocates of Bahasa Malaysia are now promoting English.

P. RAMASAMY
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Postal Information

Australia: Print Post Number PP 349181/00080. **U.K.:** Registered as a newspaper at the General Post Office. **U.S.A.:** The *Far Eastern Economic Review* (USPS 914-880) is published weekly, every Thursday, for $185.00 per year by Review Publishing Company Limited. U.S. Mailing Agent — YellowStone International Corp., 87 Burlews Court, Hackensack, NJ 07601, Toll Free Tel: 1-800-451-3410. Second-class postage paid at Hackensack NJ and additional mailing offices. **U.S. POSTMASTER:** send all address changes to Far Eastern Economic Review c/o YellowStone International Corp., 2375 Pratt Blvd., Elk Grove Village, IL 60007-5937.

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FarEasternEconomic REVIEW
EDITORIAL

On Top of Old Smoky

Good intentions aren't enough in the Philippines

While in Manila recently we paid an informal visit to the Smoky Mountain city dump. Over the years the trash heap has been a favourite reporting point for the world's journalists. The spotlight they have thrown on the people living and working here no doubt contributed to President Fidel Ramos' 1993 order to close it down. Yet still it operates. And the most vivid impression we took away from still-operating Smoky Mountain was not the unspeakable filth of the place, but the indomitable spirit of the Filipinos who work there.

Each day they turn garbage into gold. The routine is quick and simple. As each truckload comes in, a crowd of people (some, tragically, as young as five years old) wearing rubber boots and carrying collection baskets and long, metal picks waits, for the load to drop. In less than two minutes they have picked through it for every spare bit of metal, cardboard, plastic or whatever else is worth recycling. The dump trucks come from all parts of Manila, and we noted a bright yellow one that had "A Project of His Excellency Fidel Ramos: Presidential Task Force on Waste Management" stencilled on the side.

Certainly Mr. Ramos had the best of intentions when he ordered the dump site closed. Yet the idea that ugly economic problems can be removed by decree is symbolic of the notions that so need changing if the country is to realize the Ramos promise of a developed "Philippines 2000." Many of those working the site complain that the decision was taken without their consent, and it is not yet clear what they will do when Smoky Mountain is finally cleared. That they manage to make a living from this stinking mess should forever dispel any idea that the Philippine problem derives from any lack of motivation among Filipinos. It is a lack of opportunity.

Nor is this lack of opportunity some accident of nature. Rather, it is in direct proportion to the closed nature of the Philippine economy, whether expressed through overregulation of business or the Filipino First laws that close off so many promising parts of the economy to outside investors. Both sets of government policies have the same effect: to encourage corruption and choke off the investment that creates jobs. Faced with such a situation, Filipinos have a tough choice. Either they go abroad to work at jobs that pay better but are generally below their skill levels, or they adapt as best they can. For the unlucky ones, this can mean life atop Smoky Mountain.

Politicians often discount the good sense of their constituents, but people are generally rational even when they make what look like unpalatable choices about their livelihoods. The real scandal of Smoky Mountain is the perverse bag of incentives that makes this kind of living a viable choice. Mr. Ramos, to his credit, has initiated a number of liberalizations that have changed these incentives in some sectors of the economy — far more so than any of his recent predecessors. New programmes to help the denizens of Smoky Mountain find jobs and housing elsewhere have also been announced. But the government would serve its countrymen better if it concentrated on bringing in investment by opening up the economy. From what we have seen of the folks of Smoky Mountain, given half a chance they'll find their own way out. ■

Still Calling the Shots

Pyongyang returns a U.S. pilot

Don't get us wrong. It's not that we think that the United States should renege on the nuclear deal with North Korea because Pyongyang shot down an American helicopter that went the wrong way along the demilitarized zone. Instead, it seems to us that North Korea's actions of killing one pilot and holding another hostage for two weeks suggest why there should have been no nuclear deal in the first place. Still U.S. National Security Adviser Tony Lake says that the first shipment of 50,000 tonnes of heavy fuel oil will be delivered to North Korea as planned later this month.

Mr. Lake also says that international inspectors have verified that North Korea has frozen its nuclear programme. Well, yes and no. Yes, inspectors have verified the areas where North Korea has allowed them to look. But inspectors have not been able to verify what is going on at suspect sites to which they have been refused access. The bald truth is that no one outside North Korea really knows what nuclear capabilities Pyongyang has.

What we do know is that North Korea tends to treat agreements as tactical weapons, to be abandoned at will as it did with the Nuclear Non-Proliferation Treaty itself when it no longer suited its purposes. The surviving U.S. army pilot, Bobby Hall, was used in the same way: as a vehicle to demand further concessions from Uncle Sam and drive a wedge between Washington and Seoul, which was excluded from most of the recent negotiations.

South Korea, to be sure, deserves a fair share of the blame for this lack of resolve. Rather than deciding on a policy it has alternately criticized the U.S. for being a warmonger when it gets tough and for selling out when it makes a deal. Unfortunately the Clinton administration appears to have agreed that denial and incoherence are the best policy. The result today is that North Korea is again calling the shots, literally and figuratively, on the Korean peninsula. Can appeasement really be the lesson to take from victories elsewhere in the Cold War? ■

"Who should I talk to?"

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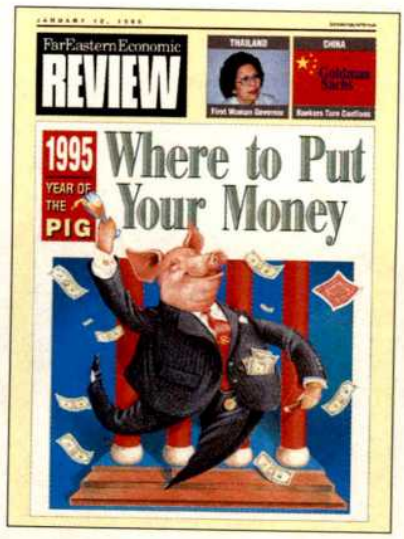

COVER STORY

A new year dawns — and a chance to make money. Or maybe lose it. Most Asian stockmarkets turned in abysmal performances in 1994. But 1995 ought to be better, according to the REVIEW's panel of fund managers. Elsewhere in our quarterly WHERE TO PUT YOUR MONEY section, we feature the outlook for "emerging" markets, many of which were "submerging" markets last year. And we tell you about an investment that offers better returns than a bank account or a bond. Page 33.

Cover illustration by Yuen Tai Yung

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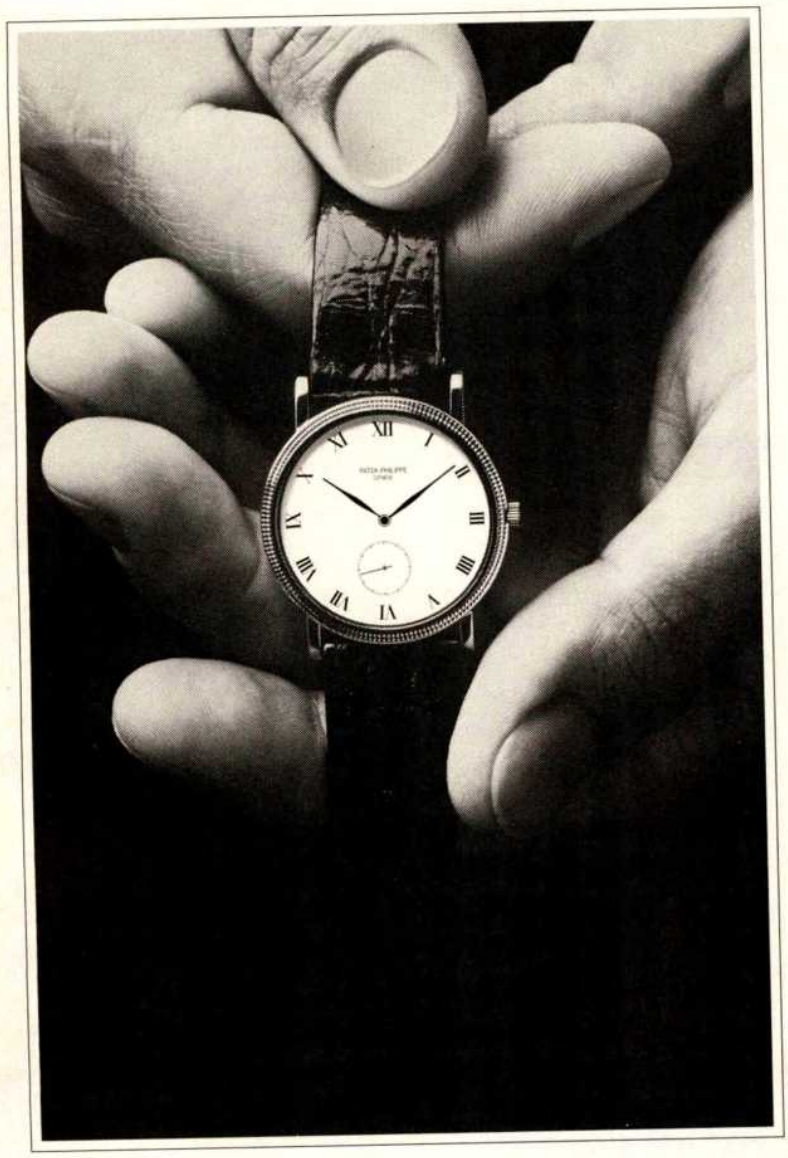

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In Other Words

"It was imperative that such a reform be carried out so as to avoid inconveniences brought about by limited surnames."

Chinese Academy of Sciences researcher Du Ruofu, who says China's 1.2 billion people are running out of names. He recommends creating new ones, reviving old ones and borrowing foreign ones.

"I'm not going to stand there alone and palely loitering with my arse exposed!"

Australian Prime Minister Paul Keating, demanding a lectern before he began a speech in Sydney.

NEWS ITEM: THAI PRIME MINISTER CHUAN LEEKPAI SAVES HIS WEAK COALITION BY FORMING A NEW GOVERNMENT WITH THE OPPOSITION PARTY, CHART PATTANA.

"Druids with clip-on beards, hippies, Japanese tourists, crackpots, you name it."

Graeme Cairns, one of the designers of New Zealand's latest attraction, "Fridgehenge" — a replica of Britain's famous Stonehenge built from old refrigerators — on the kind of people likely to come to its opening.

"Some people may say I'm stupid, but I'm the real hero."

Hong Kong action star Jackie Chan, noting that he — unlike Arnold Schwarzenegger — does not use stuntmen in his films.

"They were out there on patrol and some things happened on patrol. I don't know whether we're calling it an incident or not."

U.S. State Department spokesman Mike McCurry, on a confrontation in the Yellow Sea involving two U.S. navy planes, a Chinese nuclear submarine and two Chinese planes.

"I understand Kris."

Former Philippines' first lady Imelda Marcos, on the news that Kris Aquino, the unmarried daughter of former Philippine President Corazon Aquino, is pregnant by a married man more than 20 years her senior.

NEWS ITEM: DEVELOPED COUNTRIES SET THE PACE FOR ASIAN MARKET LIBERALIZATION.

T. Sutanto/The Jakarta Post

"You make me do all this for nothing. I can't even find 10 cents."

A note left by an exasperated Yu Kin-fong, 19, at a Hong Kong clothes factory. Yu had climbed scaffolding to the eighth floor. After finding nothing there, he climbed three flights down — and still found nothing. Arrested a week later during another burglary, Yu was charged after his handwriting was matched to the note.

"It would be a bit like London flogging off Whitehall."

A property consultant, on the impending sale of 37 historic buildings along Shanghai's Bund, or waterfront.

Please share quotes you see: REVIEW, GPO Box 160, Hong Kong, or fax (852) 2503 1530.

INTELLIGENCE

Spring Cleaning

A move by Beijing to install young, reform-minded officials in regional posts is actually a major government housecleaning operation aimed at appeasing peasants angry with rampant government corruption. According to sources in central Henan province, the central government is training what it calls "cross-century cadres" — officials under the age of 50 who have usually been trained at the central Communist Party school in Beijing — to take on top positions in the provinces and major cities. But locals say Beijing has also told the provinces to replace, remove or retrain old and "low-quality" officials in smaller cities and county-level positions. By some estimates, as many as 60% of top officials down to the county level may get the axe by 1997.

Royal Visit

Queen Beatrix of the Netherlands is expected to make her first state visit to Indonesia next August — but only after the August 17 celebrations marking the 50th anniversary of the country's independence from Dutch colonial rule. Tentative plans call for the queen to spend about two days in Jakarta and the rest of her week-long stay in other parts of Indonesia. The last royal visit was by Beatrix's mother, Queen Juliana, in the 1970s.

Risky Work

Four locally hired Laotians working for the United Nations International Drug Control Programme were killed in a road ambush near Palaveck, north of Vientiane, in the beginning of December. The UN workers were on their way to a crop-substitution project near Palaveck. A fifth person was killed in a mine explosion the following day at the same spot. The ambushing party has not been identified, but sources say it could be anti-government, ethnic Hmong guerillas, or drug traffickers displeased with the UN.

Timely Promotion

Japanese officials are relieved about personnel changes at the office of the U.S. Trade Representative after a recent reshuffle. Hard-line Deputy USTR Charlene Barshefsky has been promoted away from direct negotiations with Japan. She will focus instead on supervision of multilateral trade arrangements, including the Asia-Pacific Economic Cooperation forum. Officials in Tokyo blamed Barshefsky for much of the delay in reaching the October 1 agreement with the U.S. on framework talks to open Japan's markets. She will be replaced by Ira Shapiro, the current USTR general counsel.

UN Tussle

China and the U.S. have been tussling behind the scenes over the latter's attempts to introduce a resolution at the UN Commission on Human Rights criticizing the former's rights record. The annual session is due to begin on January 30. President Bill Clinton would claim a moral victory if the U.S. wins a procedural motion to consider the resolution — something it failed to achieve in 1990-94. China has yet to agree on a date for a visit to Beijing by John Shattuck, the U.S. assistant secretary of state for human rights. The two sides have already agreed to another meeting next month as part of their bilateral dialogue. But China has signalled that it wants the U.S. to soften its approach to the UN rights meeting before agreeing to a date for Shattuck's visit. Human-rights lobbyists in Washington believe China will let Shattuck come at the last minute, probably without significant concessions from the U.S. in return.

FREDERICK FLORIN/AFP

China human rights: quiet moves.

Parlez-Vous Anglais?

Determined to turn Vietnam into a cosmopolitan place attractive for foreign investors, Prime Minister Vo Van Kiet has ordered that all Vietnamese officials will have to speak English by 2000. Asean officials have been informed of this decision as Hanoi prepares to join the group. Vietnam is an active member of the Francophone group and has sought to use its old colonial links to France to woo investment, but potential hard cash from Anglophone investors seems to be prevailing over sentiment.

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Published weekly, every Thursday, in Hong Kong since 1946.

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Offices: 25/F, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong.
Postal address: GPO Box 160, Hong Kong.
Telephone: *General Business* 2508-4300, *Editorial* 2508-4381, *Subscription Customer Service* 2508-4338.
Fax: *General Business* 2503-1537, *Editorial* 2503-1530, *Subscription Customer Service* 2503-1549.
Telex: *General Business* 66452 REVCD HX, *Editorial* 75297 ECWEK HX.
Cable: REVIEW HONGKONG.

Printed by Dai Nippon Printing Co. (HK) Ltd., 220-248 Texaco Road, Tsuen Wan, N.T., Hong Kong.

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BP drilled so deep in the Gulf of Mexico, they ended up west of Shetland.

BP, famous for their deep water drilling, have done it again. We went west of Shetland to find out more...

How did you drill in such deep water, Tom?

Well it wasn't just me. It was practice. What we learnt in the North Sea we used to tackle the Gulf of Mexico which was much deeper. That gave us the know how for this. That's the way we work.

Was it worth it?

You bet. Basically it'll keep reserves going well into the 21st century, it's the largest discovery in the last 5 years.

An amazing feat, Tom...

Over fifteen hundred of them.

How did you do it?

I didn't. Talk to Julia, one of our geologists, she deserves the credit...after all, she did the hard bit...

Oh, but I thought...

I gather you found the field west of Shetland, Julia?

No, I didn't...

Oh, I was told...

...we all did. I worked on the seismic analysis. That's like X-raying the sea bed. It costs a fortune (or so they keep telling me) but it's worth it.

So you did the seismee... thingy in Mexico?

No, but what they learned there was passed on to me. Before that there wasn't any point in looking here - we'd never have got the oil out even if we'd found it. Do you follow?

Talk to Tom, one of our drillers... he did the hard bit.

But, he said...

ALL TOGETHER BETTER. BP

This is the tower th called for a bett

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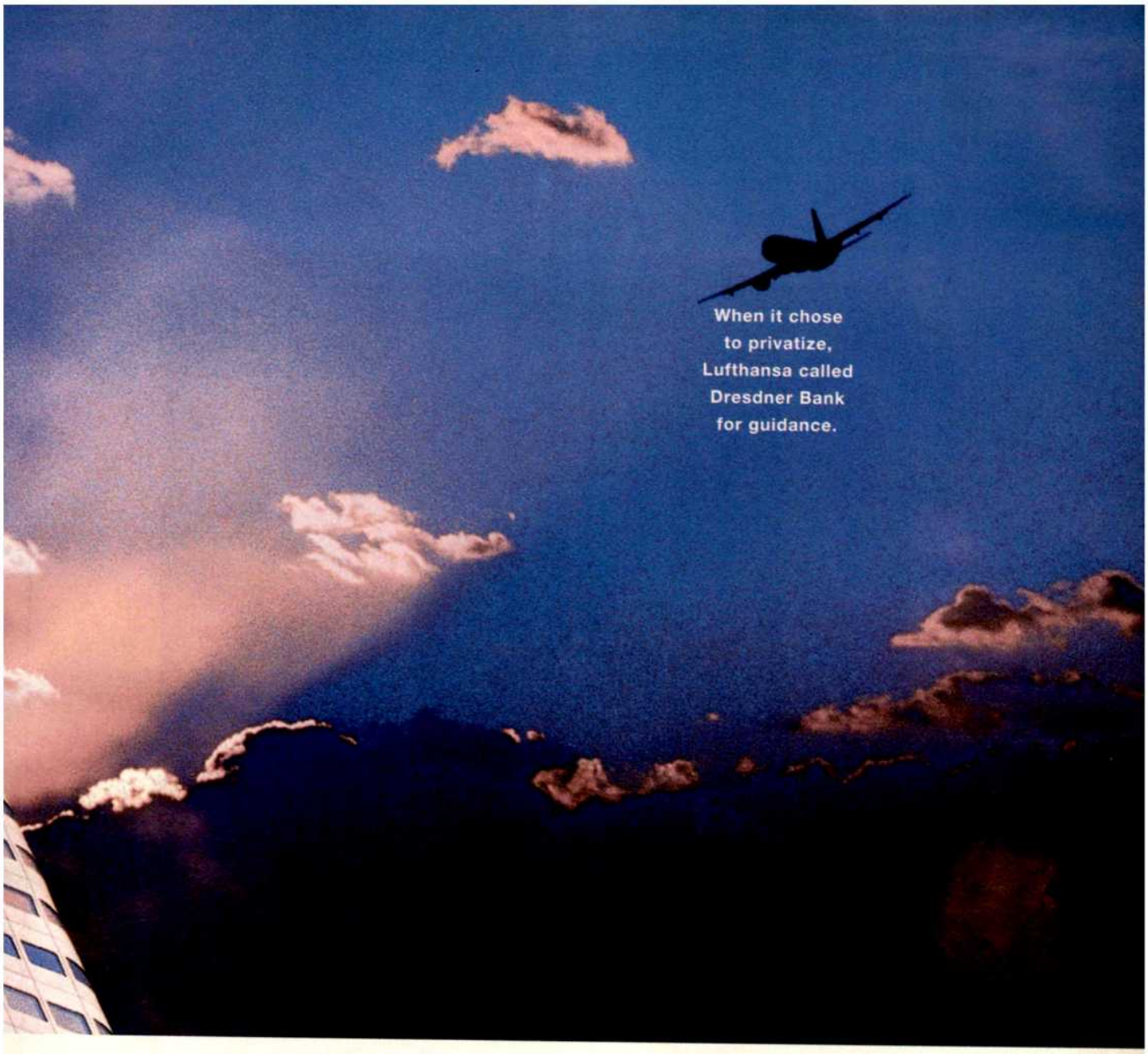

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REGIONAL BRIEFING

NORTH KOREA

Heir-Apparent

Leader Kim Jong Il failed to deliver the traditional New Year's Day address, fuelling rumours that he is in poor health and locked in a power struggle. But the next day, the official news agency released a photo showing a plump Kim receiving a bouquet from a soldier. However, Pyongyang has still not said Kim has assumed the posts of president and party chief held by his late father, dictator Kim Il Sung.

REUTER

Kim Jong Il (*right*) visits a North Korean army unit.

BANGLADESH

Opposition Quits

The opposition, led by Sheikh Hasina's Awami League, resigned en masse from parliament to bolster its demand for a neutral, caretaker government to oversee 1996 elections. Prime Minister Khaleda Zia offered to step down one month before the polls, but the opposition responded with demands that she resign immediately.

JAPAN

Yen for China

The Japanese Government pledged to lend China ¥580 billion ($5.8 billion) from fiscal 1996 to 1998. That will make China the biggest recipient of Japanese development loans, ahead of Indonesia. But only this first tranche of a five-year loan package was decided, partly due to Tokyo's concern over China's military ambitions.

INDIA

Goh to Calcutta

Making his second visit to India within a year to promote trade and investment, Singapore Prime Minister Goh Chok Tong led 30 businessmen to Calcutta on January 3-6. The visit was widely viewed as another sign of West Bengal Chief Minister Jyoti Basu's communist-led state government falling in line with New Delhi's steps to open up the Indian economy.

Fishing Freeze

Food Processing Minister Tarun Gogoi said India would not give any further licences to modern vessels or approve any new foreign joint ventures for deep-sea fishing in its economic zone, pending a review of policy. The freeze came after traditional fishermen blockaded ports along India's west coast in December to protest over lower catches.

CHINA

Jiang's Message

Chinese President Jiang Zemin signalled his strength in the coming leadership succession battle with a broadcast message "full of confidence" in welcoming the New Year. China's stance remained "firm and unshakeable" against Hong Kong's democratic reforms, and the cause of Taiwan independence was "doomed to failure," Jiang pronounced. He reassured neighbours that Beijing had no military or territorial ambitions.

Blood Money

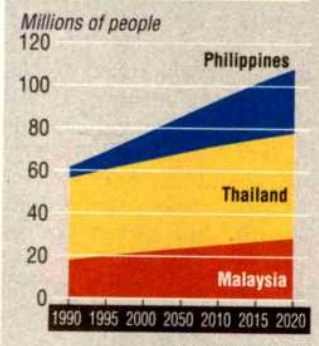
Police in the northern port of Tianjin busted a gang of railway-station touts who kidnapped children and held them as blood donors, official newspapers reported. Three men were arrested for running the year-long scheme out of an unheated flat with no plumbing in suburban Hejian. Victims had their blood extracted with unsterilized needles at the rate of 100 millilitres per day.

Prisoners' Rights

China's legislature passed a law guaranteeing "dignity and safety" along with legal-appeal rights to the 1.2 million convicts in its 700 prisons. But human-rights groups complained that the 78-article law spelled out no oversight organs or claim-filing procedures for prisoners.

Indicators

Population projections for the Philippines, Thailand and Malaysia through 2020



Source: World Bank

REVIEW GRAPHIC/RINGO CHUNG PHOTO: B.J. ADAMS

MALAYSIA

Juries Abolished

In sweeping amendments to the country's legal system, Malaysia abolished both trial by jury and judicial preliminary inquiries. Jury trials were scrapped for civil cases in the late 1970s, but had continued for murder trials. The amendments follow the creation of a third tier of the judicial system in October, when a Court of Appeal was introduced between the High Court and the Federal Court.

Sabah Shift

Tan Sri Sakaran Dandai, chief minister of Sabah, retired from politics and was elevated to the ceremonial post of governor. Sakaran, 65, was replaced by Datuk Salleh Syed Keruak, 36. Salleh will hold the chief ministership until April, and then it will rotate between representatives of the state's main races — the Chinese and the Kadazans — until 1999.

Mustapha Dies

Sabah's former chief minister, Tun Mustapha Harun, 76, died on January 2 after a heart attack in Kota Kinabalu. The charismatic politician had been instrumental in forming the Sabah wing of the United Malays National Organisation but later broke away to support the opposition.

GORDON FAIRCLOUGH

Thai border patrol: The target now is security rather than covert business with Cambodian rebels.

FOREIGN RELATIONS

New Frontiers

Bangkok's policy of distancing itself from the Khmer Rouge finally seems to be taking hold. The Thai military, which long aided the guerillas, is mending fences with Cambodia's army.

By Gordon Fairclough in Phnom Penh and Aranyapratet, Thailand

At dusk, armoured personnel carriers nestle against stands of trees in the dry paddies, their machine-guns pointed across the border towards Cambodia. In their protective shadow, Thai farmers gather the last of the rice crop with help from paramilitary rangers and the border patrol police.

The army has stepped up security in Sa Kaew province after a group of 15 Cambodians, some of them government soldiers, robbed a restaurant and killed two police officers in mid-December. This tense scene was the backdrop for a year-end meeting between Lieut.-Gen. Bandit Malaiarisoon, commander of Thailand's 1st Army, and Gen. Nhek Bun Chhay, the deputy chief of staff of the Royal Cambodian Armed Forces.

The two camouflage-clad officers shook hands and smiled for the cameras. Then Chhay, speaking in Thai, made an announcement: "We have a lot of confidence now that the Thai military is not helping the Khmer Rouge."

It was one of the strongest signs yet that relations between the Thai and Cambodian armed forces are improving. Phnom Penh has accused the Thai army repeatedly of supporting the radical Marxist Khmer Rouge in their insurgent campaign. And Thailand's vehement denials have until recently been greeted with doubt and suspicion.

Now, however, it seems Chhay and others are starting to believe the Thai army's claims that it has severed ties with the Khmer Rouge. Says Cambodian Defence Minister Tea Banh: "We understand each other better and better. Everyday, the situation improves."

Why the change in perception? Most observers believe it is the product of incremental change over the two years since Prime Minister Chuan Leekpai made cutting off the Khmer Rouge official government policy. "It's nothing new," says one Thai diplomat. "It's just that the results are finally being known. When policy is changed at the top, it takes time to work its way down to the bottom."

It hasn't been easy. Between 1979 and 1991, the Thai army served as the main conduit for covert assistance to the Khmer Rouge and two other resistance groups fighting the Vietnamese-backed government in Phnom Penh. During that time, it forged strong military ties with the Khmer Rouge, which was the largest of the three and mounted the most effective challenge to the occupying Vietnamese troops. The Khmer Rouge also came to control the most territory, including the gem mines around Pailin and rich timber resources in Cambodia's northwest. Personal business deals were struck between Thai army officers and the guerillas to exploit these natural resources.

Ending the involvement of officials in this lucrative cross-border trade has proven difficult. Army officers thought to

be involved have been transferred away from the border. And in early 1993, Gen. Wimol Wongwanich, the army commander-in-chief, issued a 10-point order saying soldiers were to have no contact with the Khmer Rouge. He said the order would be seriously enforced to head off any accusations of continued assistance to the rebel group.

The accusations, however, kept coming, the latest from Australian Foreign Minister Gareth Evans, who said that Thai businessmen and soldiers were giving logistical aid to the Khmer Rouge. Evans, who made the remark in the heat of the moment after three Western hostages were found slain by the Khmer Rouge, later said his statement was based on outdated information.

Nevertheless, such comments have helped push the issue to the top of the prime minister's agenda. Foreign Ministry officials say that with domestic political difficulties seemingly behind him, the prime minister is intent on tightening the screws to prevent any further damage to Thailand's international reputation.

In December, Chuan read the riot act to governors of provinces bordering Cambodia, telling them to sever all contacts with the guerillas. The premier, according to the Thai press, earlier gave army leaders the same message.

The Thai army's annual promotion reshuffle may have given the government's efforts a boost. Most notably, Lieut.-Gen. Surayud Chulanont, formerly head of the army's special forces, has taken over command of the 2nd Army, which oversees a long stretch of the Cambodian border. "He knows what the situation is like in the field," says one official. And that is helping him put a stop to unwanted activities.

GORDON FAIRCLOUGH

All together now: Cambodia's Gen. Nhek Bun Chhay and Thailand's Gen. Bandit.

The results haven't been perfect. "There are still certain spots along the border where personal deals have been struck. But the places where that's happening are becoming more and more limited," says one Bangkok-based Western diplomat. "Things are clearly improving."

There are still sore spots between the two armies. The Thai side wants Cambodian commanders to keep their troops under tighter control to prevent them from turning to banditry in Thailand. "Government soldiers still have some problems," acknowledges Cambodia's Gen. Chhay. "They don't get enough pay or enough to eat, they don't have as much training as they should have, and some lack discipline." And many Thai officers continue to view the Khmer Rouge as more capable soldiers.

But the Thai attitude has changed enough that the Cambodians are starting to notice the difference. Says one Phnom Penh-based Western diplomat: "I've heard of instances of Khmer Rouge trying to go into Thailand. The Thai army simply pushed them back. The Cambodian military says it gives them a much better chance of being able to control the situation."

Cambodian and Thai officials say they will exchange military attaches soon. And the Thai Defence Ministry is offering scholarships to 50 Cambodian officers to study rural development in Thailand. Indeed, the growing cooperation between the two armed forces was one of the few bright spots in bilateral relations last year.

More than 30 Thais were accused of involvement in an attempt to overthrow the Phnom Penh government in July. Fourteen of them were tried and convicted on charges of abetting the coup leaders. Immediately after the verdict was handed down, all of the defendants were deported.

On the commercial front, it was not a very good year either. Thai companies have been shunted aside in favour of firms from Singapore and Malaysia. The Cambodian Government has joined with Malaysia Airlines to launch a new national carrier, ending its partnership with one Thai firm and shutting down another Thai-run airline in the process. It also took a contract to renovate the Grand Hotel near Angkor Wat away from a Thai firm and awarded it to DBS Land of Singapore. Says Thailand's ambassador to Cambodia, Sakthip Krairiksh: "Cambodians are trying to diversify because Thais have dominated too much here."

When Chuan visited Cambodia a year ago, the two sides agreed to form a joint commission for peace and security. Barring any further delay, it should start meeting early in 1995. It has a lot to discuss. As one senior Thai Foreign Ministry official says: "We can't move our houses. We have to live next door." ■

NORTH KOREA

Manna From Heaven

U.S. gets its pilot, North Korea gets its way

By Nigel Holloway in Washington and Shim Jae Hoon in Seoul

Christmas came early in North Korea. The December 17 downing of a United States military helicopter on the wrong side of the demilitarized zone was a useful gift for a regime that has proven adept at extracting concessions from a more powerful adversary.

Pyongyang chalked up a sizeable tally in returning the surviving pilot, Chief Warrant Officer Bobby Hall, to the U.S. on December 30 and the remains of his dead colleague a few days earlier. Before he was allowed to leave, Hall signed a statement admitting that his incursion into North Korea was "a flagrant violation of international law." In addition, a senior U.S. diplomat — the highest-ranking to set foot in Pyongyang — was sent by President Bill Clinton to ask for Hall's release. Deputy Assistant Secretary of State Thomas Hubbard expressed America's "sincere regret" for the incident.

And finally, the written U.S.-North Korean "understanding" that gave Hall his freedom included a reference to future "military contact in the appropriate forum." By not spelling out that the forum would be the existing armistice commission on which South Korea sits, the understanding allowed North Korea to claim it will have military contacts with the U.S. that will exclude Seoul.

Hubbard: What price did he pay?

What the North Koreans took as a gift, the South Koreans took as a punch in the stomach, with one Defence Ministry official complaining that the U.S. "did not even bother to brief us in time" about what it would give up in exchange for the pilot's release. South Korean diplomats are said to have registered with Washington their concern that "military contact in the appropriate forum" might mean discussions that go over their heads.

The South Koreans were also angered that the U.S. envoy conveyed to them

Pyongyang's concern about Seoul's refusal to repatriate a handful of unrepentant communist guerillas captured since the Korean war. Radio Pyongyang confirmed on December 30 that North Korea had asked Hubbard to convey the message.

Implying that the U.S. was intervening in the South's affairs on behalf of the North, Foreign Ministry spokesman Chang Ki Ho said in Seoul that the guerilla issue is "an internal affair which must be dealt with in the context of our constitution and sovereignty."

The helicopter incident has driven a wedge more deeply between the U.S. and a South Korea that is already afraid of being left behind as Washington and Pyongyang push to normalize relations. The incident has also widened the U.S. political divide over the nuclear pact that was signed by the U.S. and the North in Geneva last October.

The U.S. State Department was keen to show that North Korea returned the pilot because it did not want to jeopardize the agreement, which secures for the North imported light-water reactors and eventual diplomatic recognition by Washington in exchange for abandonment of its nuclear programme. U.S. envoy Hubbard said North Korea's "decision to do the right thing reflected the common interest. . . in moving together towards implementation of the framework to solve the nuclear issue."

U.S. congressional critics of the accord disagreed, arguing the helicopter affair showed Pyongyang could not be trusted. Representative Benjamin Gilman, the incoming Republican chairman of the newly named House International Relations Committee, said two days before Hall's return: "A number of us in Congress have been sceptical about this nuclear agreement and this incident simply adds fuel to the fire."

Congressional scrutiny of the agreement with North Korea was already tough and is likely to become harsher. Gilman's counterpart in the Senate, Jesse Helms, has been breathing fire about the nuclear pact and had already planned a hearing in February to examine the fine print. The helicopter's downing "will be an interesting twist," said one Senate Foreign Relations Committee staffer.

The intelligence and armed services committees in the Senate are also planning to look at the nuclear issue. Assistant Secretary of State Robert Gallucci, who negotiated the deal in Geneva, "is going to have to defend it on a fairly regular basis," the Senate staffer said. What gives the matter extra acidity is the fact that both houses of Congress are now controlled by the Republican Party. The congressional leaders who came to power in the November elections are going to want to prove that they are nobody's patsy, particularly on contentious issues such as the Geneva agreement.

The downing of the helicopter occurred at a particularly sensitive moment in the early life of that deal. North Korea was keeping its side of the bargain, having stopped construction work on its two nuclear reactors and shut down its current reactor — all this verified by an inspection team of the International Atomic Energy Agency.

In mid-November, U.S. specialists went to the Yongbyon reactor site to help with the storage of the spent nuclear fuel rods. In early December, a team of North Korean diplomats arrived in Washington for talks on the opening of liaison offices in each other's capitals. The North Koreans even looked at some suitable real estate in Washington. To the chagrin of South Korea, there was talk in diplomatic circles that low-level missions could open in Pyongyang and Washington as early as April.

PAUL BARKER/REUTER

Released U.S. pilot Hall gets back to the friendly side of the demarcation line in Panmunjom truce village.

By mid-December, the U.S. was preparing for the delivery of 50,000 tonnes of heavy fuel oil to North Korea, and then the helicopter crashed. The oil shipment is the most important of the initial steps to show that the U.S. is keeping its end of the Geneva bargain. It is to make up for energy lost as a result of the freezing of the North's nuclear programme. The oil has to be delivered by January 21 under the terms of the deal. The Pentagon had originally arranged for the shipment to be made by a South Korean oil firm before the end of December, but then ordered a delay until later this month.

As for the crash itself, the U.S. is still investigating. And the Pentagon has ordered a temporary ban on flights along the demilitarized zone, while pilots are given further training to prevent future, unintended incursions into North Korea. This much about the December events is clear: Washington says that the flight was intended to familiarize the pilot who was killed with the demilitarized zone. The helicopter strayed five miles north of the zone and appears to have been shot down, with Hall and his comrade taken away by North Korean troops.

American congressman Bill Richardson, in Pyongyang at the time, secured the return of the dead airman but not Hall. The pilot was subsequently accused of espionage. As days went by, tension rose between the two countries, until Hubbard was able to negotiate Hall's freedom.

The price Hubbard paid seems high. Pyongyang radio has claimed that in securing Hall's release "the U.S. agreed to further bilateral military contacts to prevent incidents which threaten peace and security." The U.S. envoy denied this: "The appropriate forum for such discussion is the military armistice commission," on which the U.S., the South, and the North sit, and which Pyongyang has boycotted since 1991. "We agreed to no bilateral channels for military-to-military discussions" between the U.S. and North Korea, Hubbard told a news conference in Seoul.

Despite this denial, Hubbard's visit itself circumvented the armistice commission, arguably the right forum for talks on repatriation, and Seoul is extremely tense over the ambiguity that has resulted from the helicopter affair. For a start, according to the South Koreans, Hubbard was going against his assurances to Jang Jai Ryong, director-general of the South Korean Foreign Ministry, that his talks in Pyongyang would be limited to the "humanitarian" issue of Hall's repatriation.

The South fears that the U.S. may be tacitly agreeing to sit down and talk with the North about replacement of the 1953 armistice. For several months now, Pyongyang has used every opportunity of contact with the U.S. to press the need for replacing the armistice with a formal peace treaty. The U.S. and South Korea have in the past said they are prepared to consider this demand, but on condition that a treaty first be discussed between the North and South. Washington would get involved only in a supporting role. Now the North is making inroads on a direct, bilateral channel with the Clinton administration. ■

B A N G L A D E S H

NATURE'S PLAYGROUND

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INDIA

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Rao's rival resigns, to challenge him later

By Hamish McDonald in New Delhi

Respected Prime Minister: It is indeed with a heavy heart that I am penning this letter of resignation from your cabinet . . ."

Scion of an ancient landed family from India's Hindi-speaking heartland, Arjun Singh is never one to neglect the old-fashioned courtesies or admit personal ambition. But no one, least of all Prime Minister P.V. Narasimha Rao, was mistaken by what he meant this time.

Shorn of its polite preamble and maudlin references to his conscience, Singh's seven-page letter was a political broadside, declaring war on several fronts but essentially accusing Rao of losing touch with the party grassroots. To ram home the message, Singh publicized the letter immediately after it was delivered by holding a crowded press conference on his own front lawn, right next door to Rao's official residence.

The former education minister's break with Rao on December 24 culminated a month of turmoil in the ruling Congress Party, as it tried to pin down the reasons for drastic state election reverses in southern Andhra Pradesh and Karnataka. Rao, a southerner himself, had previously drawn strength from the party's success in these states.

Singh is unlikely to unseat Rao immediately, but the challenge may have ended the three and a half years of leadership stability that has benefited India during its recovery from the 1991 external payments crisis and switch to liberal economic policies.

It has reminded everyone the government is entering the last year of its current term. National elections are due by mid-1996, but could be called in February or March next year. Finance Minister Manmohan Singh's budget for 1995-96 (April-March), which is due at the end of February, could be the last chance to ram home economic reforms before a vote-garnering mentality sets in.

Arjun Singh may now be waiting for more state elections next month to give him extra ammunition against Rao. The Congress is likely to lose Gujarat to the Hindu rightwing Bharatiya Janata Party and will have a tough fight in Maharashtra, home to much of India's corporate wealth, against the BJP and its regional ally Shiv Sena. Bihar is likely to stay with the populist Janata Dal. Only in backward Orissa does Congress have a chance to topple an opposition-held government.

Such a result could be read many ways, and reverses in Maharashtra could be blamed as much on state Chief Minister Sharad Pawar, who has recently been accused by two top officials of seamy connections with gangsters and land grabbers. But Singh may move in for the kill anyway. At the very least, he will push for Rao to be stripped of the Congress Party presidency, which confers the crucial patronage-yielding role of deciding the party's candidates in the 1996 elections.

REUTER

PANA-INDIA

Rao (*above right*) in Maharashtra, a state his Congress party may lose in elections next month. *Inset*: Arjun Singh.

Through the squabblings of December, Rao's tendency to sit on important decisions helped open the way for Singh to make his challenge. Public disgust with corruption had been a major issue in the southern state polls, and official reports into two major scandals gave Rao the chance to show some toughness against ministers accused of misconduct.

A report by former Auditor-General Gyan Prakash into the sugar-price spiral early in 1994, started by a domestic crop shortfall, found Food Minister Kalpanath Rai "entirely responsible" for the crisis. Rai had opposed imports in every official forum and continually justified rising prices as good for the sugar industry. Prakash also pointed to leaks of inside information that allowed traders to buy sugar overseas at $240 a tonne in forward contracts. When New Delhi finally decided to make emergency imports in May 1994, traders sold the sugar to the government's trading corporations at $400 a tonne.

Instead of tabling the Prakash report, the government had it placed in the parliamentary library — in an attempt to lessen its official weight. Then in the face of an opposition outcry, Rao defended Rai by saying Prakash had not found any *mala fide* (bad intent) in his handling of the sugar crisis — something Prakash promptly pointed out had not been in his charter anyway.

To make matters worse, a junior minister assisting Rao told Parliament on December 14 that the Civil Supplies Ministry, which handles distribution of essential items through low-price ration shops, was also at fault for not signalling the impending sugar shortage. Civil Supplies Minister A.K. Antony, a former chief minister of southern Kerala state with an impeccable reputation, promptly resigned and showed evidence he had warned of an impending sugar crisis in December 1993.

Meanwhile, the opposition kept hammering Rao about inaction against offenders in the 1992 Bombay securities scam, in which stockbrokers siphoned some $1.3 billion out of the reserves of major foreign and local banks. An "action taken report" produced in October found no case for penalizing two ministers caught up in the scandal: The then Petroleum Minister B. Shankaranand had diverted public-sector investment funds into high-risk management schemes run by private banks, and Rameshwar Thakur, the then junior finance minister, had sat for a month on an income tax inquiry into the central figure in the scam, Bombay broker Harshad Mehta.

The government was caught out when communist MPs leaked a report by the Central Bureau of Investigation, India's top police agency, recommending prosecution of Shankaranand. The police found a particular bank had consistently won bids for investment of oil-sector reserve funds with last-minute interest-rate offers, a fraction above those of rival banks. Shankaranand's son worked with this bank, and the funds went to a finance

company deeply involved in the securities scam. Even after this revelation, a "revised action taken report" tabled on December 20 recommended no action against the minister.

Along with Civil Supplies Minister Antony, over a dozen younger ministers led by Salman Khurshid and Krishna Kumar offered their resignations to Rao in mid-December to help him carry out a reshuffle. But it was only after Arjun Singh also talked of quitting that on December 22 Rao asked Rai, Shankaranand and Thakur to step down "in the larger interests of the party." The sequence left Singh able to claim it was his pressure which finally steeled Rao to take long overdue action.

Singh also took credit for changing the original draft of the government's economic reforms, which had been a "crude attempt" to debunk the policies of previous Congress prime ministers by projecting "as false the premises on which the country's economic policies were framed and executed by all the governments that preceded us." Singh claimed the present reforms were building upon the previous achievement of a "strong, self-reliant economy" rather than demolishing them.

But even though Singh had put the reforms in their correct light, they were now under attack because of personal acts of "commission and omission" by some people. "A perception has emerged that liberalization of economic policy perhaps has become liberalization of corruption," he said.

The letter lays the foundations of Singh's strategy for regaining the electoral initiative. By attacking a "North-South syndrome" in the party, he clearly wants more leaders from the northern Hindi-speaking belt of states in prominent positions. He urges an apology to India's 120 million Muslims for the government's failure to protect the Ayodhya mosque from demolition by Hindu fanatics in 1992. And he wants to give economic power to former untouchables and other poor communities through extension of state works and cooperatives.

So far, Singh's main support has come from a predictable quarter, N.D. Tiwari, a former chief minister of Uttar Pradesh. Tiwari resigned as the state's party chief on December 31 after failing to pressure Rao into sacking the present state government, a coalition of two parties based on lower castes.

Rao, meanwhile, gathered a statement of support from 41 ministers immediately after Singh's resignation. By delaying a cabinet reshuffle to fill vacancies, he was keeping MPs hopeful of a ministerial berth onside for a while longer. Using his well-tested techniques of deflating opponents, the master of anti-climax was at work. ■

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MALAYSIA

Offside

Red faces follow match-fixing revelations

By S. Jayasankaran in Kuala Lumpur

In 1981, journalist Fauzy Omar wrote a front-page exclusive detailing the rigging of a football match between Singapore and Malaysia's Selangor state. Singapore was clearly the better side but they went down tamely. Writing in the *Sports Mirror*, Fauzy quoted Singapore coach Jita Singh as saying that five players on his team had taken bribes and went on to detail the exact means of payment and the sums involved.

After the revelations, five of the Singapore players never played for the republic again, but no action was taken on the Malaysian side. Nor it appears has there been any attempt to control what many believe to be rampant match rigging in the years since. "The situation now is much worse," contends Fauzy, now a senior editor in the New Straits Times Group and the president of the Sports Writers Association of Malaysia. "If the authorities had acted then, perhaps none of this would have happened."

Fauzy was referring to revelations of widespread match fixing that have rocked Malaysian soccer in the last four months, severely embarrassing the Football Association of Malaysia. The authorities have responded with a police crackdown: 31 players, a football coach and three bookies have been detained. No charges have been filed, however.

Especially galling for Sports Minister Datuk Abdul Ghani Othman was the fact that football is the most popular spectator sport in the country. Premier League matches attract thousands of fans despite being telecast live. "How can these people cheat the fans?" he said recently. "It's a national scandal."

Worse were disclosures that soccer bribery had been in existence since the 1970s. Government sources say that 85% of Premier League matches in the 1994 season were fixed. Police investigations painted an even grimmer picture, estimating that 95% of match outcomes were rigged, with betting on certain games running as high as M$5-10 million ($2-4 million).

With the cat out of the bag, players have come forward with their own horror stories. And much to the chagrin of Malaysian sports officials, some of the revelations have come from abroad. In Melbourne, Warren Spink, a former player for Perak state, spoke of how betting syndicates would approach his teammates with offers "exceeding hundreds of thousands of dollars."

Spink said the syndicates would usually offer a large sum to the team's star player first. The star would then have to "persuade" his teammates to play along. "I was pulling my hair out because we knew the outcome of games before they were played," Spink told the Australian Associated Press. "I remember one game where we lost 3-5 at home. We were well on top but every time the ball came back, defenders would fall over and the goalkeeper would make mistakes."

The stink over Malaysian soccer hasn't discouraged the fans.

Malaysia's soccer scandal came to light in August after Singapore anti-corruption officials charged Czech striker Michael Vana and referee T. Rajamanikam with match fixing. Rajamanikam pleaded guilty and was fined S$1,000 ($685) and sentenced to eight months in jail. Vana, who elected to fight the case, jumped bail in November and fled to Prague.

The Singapore revelations alarmed the Malaysian authorities, and Sports Minister Ghani took it upon himself to get to the bottom of the issue. With help from Fauzy's Sports Writers Association, he presented a paper to the Cabinet in September detailing the scale of corruption in the sport. Prime Minister Datuk Seri Mahathir Mohamad promptly gave Ghani a free hand to proceed with his investigation. Armed with sweeping powers including the right to examine bank accounts and asset holdings, the police and Anti-Corruption Agency officials began a nationwide blitz.

The results have been decidedly mixed. While most observers agree that the authorities may have deterred soccer bribery in the near term, they also allege that the police swoop has been strangely one-sided. While the names and pictures of arrested, and handcuffed, soccer players have been splashed all over the papers and television, no names of detained bookies have been revealed. More to the point, no single player has been charged although some have spent more than two months in jail.

Malaysian police have defended their actions by saying that soccer bribery is difficult to prosecute "because of the lack of evidence."

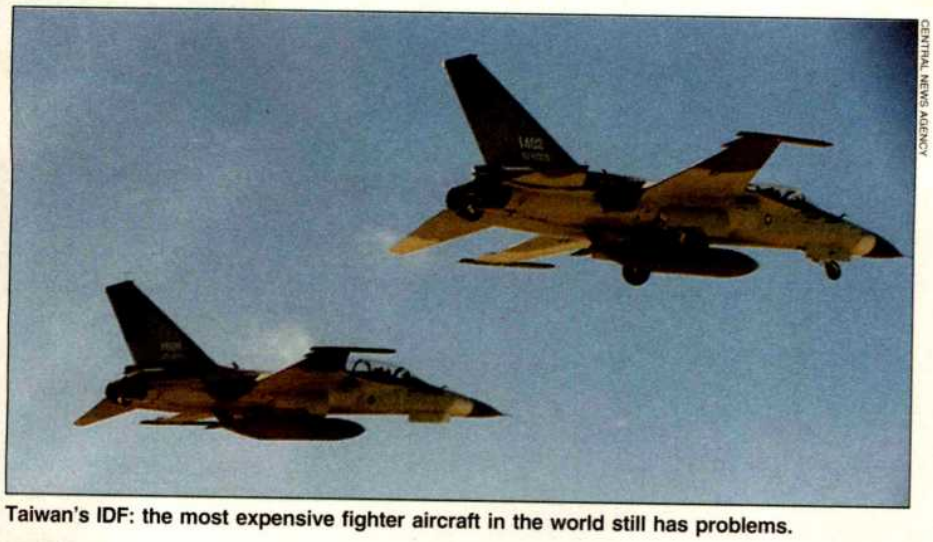
Meanwhile, all three unidentified bookies have been banished to remote areas under the Restricted Residence Act. Under the act, they can be confined to a certain area for up to five years where they have to report daily to the police. The police have also said that they might use the act against footballers if they "didn't have enough proof to prosecute."

Singapore, however, has continued to charge players. In late November, Singapore national footballer, K. Kannan, and Ong Kheng Hock, a soccer official, were jointly accused of offering S$140,000 to Singapore goalkeeper, David Lee, to "influence matches against Malaysian teams."

The cloud hanging over Malaysian football has also left soccer coaches facing great difficulty in selecting a national squad for an international competition in Bangladesh in February. National coach Claude Le Roy has been forced to consult police to ensure that none of the players picked for the national team are facing arrest. Le Roy finally announced a new squad after Christmas.

The adverse publicity has had immediate consequences for the sport. "We know for a fact that some parents have stopped their children from playing soccer," says sports writer Fauzy. "This can only mean the destruction of soccer's future."

Strangely, Malaysian soccer fans don't seem to have lost faith in their players despite the revelations of massive match fixing. In the Malaysia Cup Final between Singapore and Pahang in early December, 80,000 fans jammed the Shah Alam stadium to cheer on their heroes. For the record, Singapore thrashed Pahang 4-0. ■



CENTRAL NEWS AGENCY

Taiwan's IDF: the most expensive fighter aircraft in the world still has problems.

Winged

Locally made jet fighter fails to convince critics

By Julian Baum in Taipei

Its numerous critics notwithstanding, Taiwan's Indigenous Defence Fighter does indeed fly. These days though, its most likely task will probably be escorting yet another hijacked Chinese passenger jet across the Taiwan Strait. In theory, however, the new fighter's main military mission remains the interception of invading aircraft from the Chinese mainland.

It remains unclear, however, whether the IDF, described by military analysts as the world's most expensive jet fighter, can play the role for which it was built: closing the gap between China's modernizing air force and Taiwan's ageing fleet of United States-built F5s and F104s. Particularly crippling, its critics say, are shortcomings arising from technical limitations imposed on the design programme by Washington. Now that China is acquiring advanced aircraft technology from Israel as well as Russia, many analysts are not convinced that the IDF programme will meet Taiwan's long-term needs.

"Both sides are now entering into a new generation of military concepts with new defensive weapons," says Andrew Yang of the Centre for Advanced Policy Studies, which specializes in military affairs. "In the future there shouldn't be any scenarios like the confrontation of the 1950s, because new tactics are being developed in accordance with the new technologies. But under these conditions, the IDF does not meet all the requirements of an advanced interceptor against the [Taiwanese] air force."

Officials at the Ministry of National Defence hope that the inauguration of an operational squadron of 22 IDFs by Premier Lien Chan on December 27 will help build confidence in the aircraft. The IDF squadron represents the first of a total of 130 aircraft to be delivered to the air force, with completion of the programme expected by 1998. That will be roughly half the original production target of 250, which was scaled back two years ago after the U.S. reversed its decade-old policy and agreed to provide Taiwan with the F16.

Taiwan's air force commander-in-chief, Tang Fei, has said the IDF meets the island's defence needs, though he added that the aircraft will be improved in the future as pilots and designers learn from operational experience. "Wait a little, and I believe the problems will be solved," Tang said recently.

The fighter has a range of 550 nautical miles with an air speed of over Mach 1.2. At the inaugural ceremony in December, IDF squadron leader Col. Wang Chang-ho told reporters that he had flown the latest U.S. and French fighter jets, but that the IDF was "the best of them all."

It is an open secret, however, that the IDF has faced serious design problems and mechanical malfunctions during its 12-year development. Notable were an underpowered engine and an airframe that a former air force commander says is too heavy for its size. The difficulties led to the crash of a prototype during testing in 1991, killing Taiwan's top test pilot.

The engine deficiency dates from the beginnings of the IDF project in the early 1980s, when the U.S. blocked the purchase of a military jet engine and insisted on commissioning a company that specialized in commercial engines to design the fighter's power plant. Plans to replace the underpowered engine, built by Garrett Turbine Engine, were cancelled two years ago after the U.S. and France broke the boycott on advanced weapons sales to Taiwan with contracts to sell it the F16 and Mirage 2000-5E fighters.

Overall development costs for the aircraft are estimated to have exceeded $4 billion. With production costs included, the 130 aircraft to be built are estimated by military sources to cost between $50 and $60 million each. Nor is there much prospect that overseas sales will reduce unit costs, say analysts, though Taiwan has displayed full-scale models of the IDF at regional air shows in the last several years.

"The question now is how far to go with the programme, which has been very expensive," says Yang. "We now have our own defence aircraft industry. But should we develop it, transfer it to private use, or abandon it? So far, the government has no clear policy for the future."

Taiwan is also watching China's own indigenous military aircraft industry evolve with technical assistance from other countries. A recent report in the *Los Angeles Times* confirmed that China is developing a version of the Lavi fighter in cooperation with Israel Aircraft Industries, possibly involving the transfer of U.S. technology. Like the IDF, the original Lavi aircraft was developed in cooperation with U.S. companies, but the programme was cancelled at U.S. insistence in 1987. Now industry and U.S. government sources say that Israel is continuing the Lavi's development in cooperation with China and that a prototype will be ready by 1996.

Taiwanese military intelligence has known about Israeli cooperation with the Chinese in developing a new fighter aircraft, says Yang, though the recent reports are more specific about the nature of their project. As a light interceptor aircraft, the Lavi could be used to patrol China's border with India, the east coast and the South China Sea. An article in the respected *Flight International* magazine in November said that the aircraft would be in service by the Chinese air force after the turn of the century.

Besides hardware problems and challenges from China's own modernization programme, Taiwan's military also faces a serious personnel shortage. With young people shunning military jobs in favour of high-paying careers in business and industry, military academies cannot fill their entering classes. The required two-year military service for males is inadequate time to train personnel for the highly sophisticated equipment that Taiwan's defence forces are acquiring, say military officers. ■

PAKISTAN

Riches to Rubble

Karachi's collapse rocks Bhutto government

By Ahmed Rashid in Karachi

Walled villas, bodyguards and patrolling soldiers had kept the violence out of Clifton, Karachi's plushest suburb, for most of the year. But in December, gunmen killed a well-known TV actor and the 65-year-old sister of former Foreign Minister Agha Shahi in the exclusive neighbourhood. Others were also slain, and a local supermarket was attacked.

The killings sent the city's glitterati into a blind panic. The wealthy cancelled lavish wedding receptions and New Year's parties. Renowned charity worker Sattar Edhi — known as "the Mother Teresa of Pakistan" — fled to London, saying his name was on a hit list.

It wasn't so easy for inhabitants of Karachi's more modest districts to get out of the line of fire. On December 23, a day after the battered bodies of four kidnapped paramilitary rangers were found in a rubbish dump, police arrested 250 people in a hunt for the killers. During their sweep, they fired on a wedding party, killing the bridegroom and wounding 11 others.

The police had failed to arrest anyone for the nearly 170 other killings that took place in Karachi that month, so their heavy-handed reaction to the murder of their own kind triggered a wave of public indignation. Another orgy of demonstrations and car-burnings gripped the city, where at least 800 people were slain and thousands wounded during 1994.

The endless cycle of violence in Karachi is finally staggering the whole country. American and Japanese companies are pulling out executives and their families from the city, which is Pakistan's industrial and commercial capital. European embassies have drawn up emergency evacuation plans for their nationals. Wealthy Karachi parents are shifting their children to schools up-country.

"It's a war zone," says a Western banker. "Nobody knows who is killing whom, or where the next shootout will be. It's too dangerous to carry on living or doing business here."

The death toll escalated after November 30, when the army, which has patrolled Karachi for close to two years, withdrew and handed over law-and-order duties to the police and paramilitary rangers. Senior military officers say they pulled out the troops because the government of Prime Minister Benazir Bhutto was unwilling to make major changes that are needed in the administration, police and judiciary. Sources close to the military specifically charge that Bhutto's husband, Ali Asif Zardari, is supporting corrupt or incompetent officials in Karachi.

QADEER AHMED/AFP

Hope and remembrance in bloody Karachi.

The army withdrawal can only step up the pressure on Bhutto and her ally, President Farooq Leghari. The Pakistani leaders have come under increasing criticism from the press and public for appearing powerless, at best, and indifferent, at worst, in the face of Karachi's worsening violence. And with members of her Pakistan People's Party on the verge of revolt in two key provinces, more pressure is the last thing Bhutto needs.

Karachi is in the grip of several civil wars at once. The main protagonists are still the Muhajir Qaumi Movement, made up of Indian Muslims who migrated to Pakistan's cities at the time of the partition of India, and a breakaway faction called MQM-Haqiqis. But the conflict between Shia and Sunni Muslim fundamentalists, previously limited to Punjab, has also exploded in the Sindh province city.

Fuelled by the total breakdown in normal life, Karachi's rumour mill is churning furiously. At the moment, talk is dominated by the claim that the city is about to be turned into an independent, Hong Kong-style, free port by the MQM, which has demanded that Karachi separate from the rest of Sindh. The United States backs the plan, according to the conspiracy theorists, a charge that U.S. officials dismiss as "nonsense."

The rumours that Pakistan is on the verge of a breakup were so strong that Leghari had to go public to discount them. "There is no question of any part of Pakistan seceding or a new situation of the type arising," he said on December 18. "Those who are thinking on these lines are living in a fool's paradise."

Leghari promised that the government would take measures to end the violence, but his words seemed to carry little weight. As he spoke, gunmen killed 11 more people in Karachi, and a general strike called by the Sunni fundamentalist group Sipah-e-Sahaba Pakistan paralyzed the city.

The shutdown demonstrated just how bad things have become. Six months ago, nobody had heard of the SSP in Karachi. Now, its Kalashnikov-toting thugs can clear the streets in seconds. Police sources blame the SSP for at least three separate massacres of Shia Muslim worshippers in mosques in December. Shia militants, in turn, have struck at Wahabbi mosques. "We know that [Shia] Iran and [Sunni] Saudi Arabia are pumping in millions of dollars for these rival groups, but what can we do about it?" asks a federal cabinet minister.

Other new gangs have hit the streets since the army's withdrawal, including drug traffickers, car thieves and Afghan and Arab mercenaries. The government sees the hand of Indian intelligence behind some of the unrest. On December 26, Pakistan ordered India to close its consulate in Karachi, calling it "a centre for sabotage." But many Pakistanis saw the move as a ploy to deflect blame onto India for the Karachi anarchy.

In a shift in tactics, the rival factions have increasingly begun targeting important figures. Mohammed Salhauddin, the editor of a top Urdu-language weekly, was assassinated outside his home after he criticized the MQM. A pro-MQM newspaper manager was subsequently killed in his office as retaliation.

Businessmen are calling for martial law. "We want the army back in Karachi with full powers of arrest and sentencing," says a leading member of the Karachi Stock Exchange. "Even martial law is better than this." The KSE index slipped 207 points, or nearly 10%, in the three weeks following the army's withdrawal, including its worst single-day drop of 60 points on December 20. The index re-

bounded during the last week of the month, but it has still shed nearly a quarter of its value since March.

The situation in Pakistan is not being helped by fierce inflation. While the government says prices rose 11-13% in 1994, independent estimates range from 22-25%, and some senior bureaucrats admit that inflation is out of control. Meanwhile, major industrial sectors such as textiles, which account for 60% of the country's exports, are being battered by a recession. "We are in the midst of the severest recession in the country's history and the government appears to be doing nothing about it," says a leading Karachi industrialist.

The failure of the government to respond adequately to the Karachi violence, meanwhile, is fuelling suspicions that it's not interested in restoring order. At a private dinner for industrialists in Islamabad, Leghari said that rival militant groups should kill each other off, like in Kabul, and only then would the government act. Shocked Karachi businessmen reminded him that the Afghan capital has been levelled.

SAEED KHAN/AFP

Leghari's 'solution' shocks his audience.

Bhutto, for her part, has spent three of the past 10 weeks outside of Pakistan — drumming up foreign investment. "Not a single deal signed will be implemented if this goes on," a foreign banker says about the Karachi unrest. A cabinet reshuffle on December 20 in which Bhutto inducted four new ministers did little to alter the public perception of the government as rudderless.

"Nationhood is being torn apart by ethnicity, sectarianism and terrorism. The state faces erosion. We are left with a ruler who doesn't have any idea of how to govern," said an editorial in the weekly *Friday Times*.

Both Leghari and Bhutto are holding on-off talks with the MQM, but even some members of the premier's party doubt her sincerity. "She seems to be wanting to commit political hari-kari so that she can run off and live abroad," charges one disgruntled PPP leader. Cabinet ministers complain that she refuses to listen to them when they speak of peace initiatives in Karachi or reconciliation with the opposition.

In two key provinces, PPP legislators are on the verge of revolt. In North-West Frontier Province, Chief Minister Aftab Sherpao faces rebellion in the Provincial Assembly after his mishandling of a tribal insurgency in November left at least 200 people dead. PPP legislators want to dump him before voters dump the party.

In Punjab, the balance of power is held by Chief Minister Manzoor Wattoo of the Pakistan Muslim League, a party that currently supports the government. Punjab PPP legislators say Wattoo is building up his own strength, lining the pockets of his supporters and ignoring the PPP. "He is simply blackmailing Benazir because she knows if he goes back to the opposition, her government will fall in Punjab," says a PPP legislator. "And if Punjab falls, the government in Islamabad falls."

When Faisal Saleh Hayat, a key Punjab PPP leader, took disgruntled party legislators to meet Bhutto, she shouted at them and told them she would have them arrested if they staged a party revolt. Hayat, who has since stayed away from the National Assembly, is now the focus of a growing group within the PPP that opposes Bhutto and her influential husband.

Bhutto's political ineptness has given the opposition, led by Nawaz Sharif, a new lease on life. Together with disgruntled PPP deputies, opposition MPs are trying to assemble the votes to pass a no-confidence motion against Bhutto. They claim that if the army gives them the nod, they have enough votes in the National Assembly to vote Bhutto out. "It is better that she goes, so that at least parliament stays and we avoid another election," says a dissatisfied PPP leader. "The alternative, of course, is martial law."

Sharif has paved the way for a possible new consensus prime minister by letting it be known that he would not be a candidate for the office. Most analysts see this as a covert appeal to the army, which doesn't trust Sharif, to help the opposition topple Bhutto through parliament. Installing a consensus figure as premier would end the Bhutto-Sharif fight that has paralyzed the political system since 1988, while avoiding martial law. The army would almost certainly insist that both leaders be sidelined in any future elections.

Sources close to the military say that the army is fed up with both Bhutto and Sharif. They express fears that Pakistan's security is being threatened by the instability, which they say is being exploited by India. The chaos at home is hampering the military's efforts to aid anti-Indian Kashmiri militants and Pakistan's allies in Afghanistan, the sources argue.

"I think even Bhutto is tired of politics and wants a way out," says a senior bureaucrat. "For honour's sake, she may want to be pushed out rather than resign. There is no other explanation for the suicidal road she is taking." ■

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LAND RIGHTS

Overdue Payment

New Zealand makes a deal with Maoris

By Colin James in Wellington

The New Zealand Government and the Waikato Maori tribe sat down on December 21 to ratify an agreement settling a 130-year-old grievance over land. Present at the ceremony formalizing the deal were the government's Treaty Negotiations Minister Doug Graham and Robert Mahuta, chief Waikato negotiator. When the time came to ratify the new agreement, Mahuta noted with amusement that while he was signing each page, Graham was only scrawling his initials. In 1840 when the colonial settlers signed the Treaty of Waitangi between the two sides, the Maori chiefs simply put down their marks.

Roles at the Waikato signing had been briefly reversed. But both men would be quick to acknowledge that despite such surface changes, the central reality dominating the troubled relationship between the country's majority white population and its indigenous Maori tribes can still be summed up in one word: land. The agreement represented the latest — and potentially one of the most important — attempts to address the emotive issue of dispossession that has long soured relations between the two sides.

The Waikato claim — which will cost New Zealand taxpayers NZ$170 million ($109 million) — is the largest of more than 400 lodged since 1985, when a mechanism was established to pursue claims for breaches of the Treaty of Waitangi. The government hopes the Waikatos' willingness to come to an agreement will encourage other tribes to settle within roughly comparable amounts. If that optimism proves justified, it would prove an important milestone in New Zealand's history.

In particular, it could prove crucial for the fate of the Maoris, who make up 12% of the population. A comprehensive settlement would go some way towards restoring a sense of dignity and self-worth that tribal leaders say was lost along with their land. And the financial gains that accompanied a settlement could help to put Maoris on an equal educational and economic footing with white New Zealanders.

But several obstacles lie on the path to a comprehensive settlement. Currently looming the largest is the government's attempt to put a NZ$1 billion cap on all settlements.

Ironically, in the early years of New Zealand's settlement, Maoris took readily to 19th-century laissez-faire capitalism, even running shipping lines, including one across the Tasman Sea to Sydney. They also adopted European agricultural techniques, even running flour mills that contributed critically to the food supplies of the fragile colonial towns.

All that was, however, before the land wars of the 1860s, fought by English colonists to force the Maoris to submit to British law and to make available land for sale. After their defeat, the Maoris were frozen out by banks and jealous European business operators, and they rapidly lost their base asset: land. By 1890, 50 years after signing away sovereignty to the British Crown in the 1840 Treaty of Waitangi — which also purported to reserve to Maori chiefs traditional authority over lands, fisheries, villages and *taonga* (treasures) — Maoris had lost all but 4.4 million hectares of the country's 26.8 million total. Now that figure is down to 1.2 million hectares.

MANFRED GOTTSCHALK/PICTURE HOUSE HK

Fighting for dignity — and for a few dollars.

Settlements like Waikato could go some way towards changing those figures, though the past history of such agreements isn't encouraging. In theory, the Waikatos' claim has been "settled" once before, with an annuity granted in 1947 in belated recognition of the finding by a royal commission in 1921 that the tribe's land was unjustly taken from them. The 1947 annuity, declared to be a "full and final" settlement, trickled out over 30 years and, according to Treaty Negotiations Minister Doug Graham, totalled about NZ$4 million.

In the new settlement, which is also said by the government — though not by Robert Mahuta — to be full and final, the tribe gets 14,000 hectares of land. The income from the land — NZ$14 million annually at the most — will not go to individual tribe members. They would, says Waikato adviser James Ritchie, get only about NZ$3 a week each if the money was distributed among the tribe.

Instead, the settlement will go mainly into reinvestment and development of the land as a bankable revenue-producing asset and on training and education. A college is to be endowed at each of Waikato and Auckland Universities, for example. Members of the tribe may also be able to rely on the tribe's assets as backing in obtaining loans to set up and develop businesses, Ritchie said.

As the first major deal involving land, the government hopes the Waikato settlement will set the tone and the scale for settlement of other claims. Some 400 claims have been lodged since the Waitangi Tribunal, set up in 1975, was given authority in 1985 to deal with grievances dating back to 1840. The tribunal establishes the historical facts and the legitimacy, if any, of the grievance. It also recommends a solution. The settlement is achieved through direct negotiation between the claimants and the government.

This process has proved painfully slow. Only nine claims had been settled before the Waikato deal, even though most seek only the return of relatively small pockets of land, such as a desecrated cemetery or a hill. Direct action and protests, which almost disappeared after the 1985 legislation, have begun to return as frustration builds.

In addition to the 10 settlements the tribunal has handled, a special one-off deal on fishing rights was reached in 1992. The government paid NZ$150 million to enable the Treaty of Waitangi Fisheries Commission, representing all tribes, to buy a half-share in Sealord Products Ltd., a fishing and fish-processing company. Together with earlier, smaller deals, that will eventually deliver into Maori control the right to half the annual sea catch.

But this pan-tribal deal, done in great haste because Sealord came up for sale suddenly, has proved problematic. Tribes have been unable to agree on a formula for dividing the assets and the spoils. Some want it divided on the basis of alleged (but disputed) historical fishing rights — crudely calculated by the coastline included in tribal territories. Others, who have little or no coastline, want it calculated on a population basis. A compromise mixed formula has so far not

been successfully worked out.

To head off similar problems in land claims, the government spent two years defining a process around which negotiations could be built. The new system, details of which were published on December 8, requires the establishment by Maori negotiators of a case, a clear mandate to negotiate and a governance mechanism with clear lines of accountability.

Negotiators must accept that the settlement will be final and cover all claims. Compensation will be by way of cash, distribution of land from a "land bank" built up by the government and other agreed means.

Most of this is uncontroversial, though some Maoris say some of the proposals for the conservation estate and natural resources are paternalistic. They also complain that the proposals are too concerned with the general public's present rights or economic interest at the expense of acknowledging Maori conservationist practices and the likelihood tribes would have developed the resources as Europeans have.

But overshadowing these concerns is the proposed cap of NZ$1 billion on all settlements. The money is to be trickled out at NZ$100 million a year over 10 years, by which time the government wants all claims finalized. Tribes staying outside the settlement process will miss out on a share or, Graham says, they'll have to take their chances with a future government.

"The Maori reaction (to the cap) will be an emphatic no," predicts Sandra Lee, leader of the Maori nationalist political party, Mana Motuhake. "That is not just from radicals, but from the most highly respected *rangatira* (high chiefs)," said Lee, who is also leader of the Alliance, a group of five parties including Mana Motuhake. The Alliance is joined by the main opposition Labour Party and two other small parties in opposing the NZ$1 billion cap.

Confirmation of Lee's warning about the high chiefs came on the same day as the December 21 Waikato settlement in a letter to Prime Minister Jim Bolger from Sir Hepi Te Heu Heu. Hepi is paramount chief of Ngati Tuwharetoa (who did not sign the Treaty of Waitangi) and one of the most respected Maori leaders. He has called a meeting of tribal representatives from all over the country on January 29. Earlier he and the Maori Queen, Te Arikinui Dame Te Atairangikaahu, refused invitations to a briefing by Bolger.

Sir Tipene O'Regan, chief negotiator for the Ngai Tahu, says the government's approach was "grossly impertinent" and its plan was a "rather silly booklet."

Donna Hall, secretary of the pan-tribal Maori Congress, told a radio interviewer that Maoris had not been consulted in advance and "certain basic mistakes and fundamental misconceptions in the way it is structured have come out."

The Maori opposition is partly to the amount, which pales beside some estimates of what full compensation would involve. Ranginui Walker, associate professor of Maori studies at Auckland University, estimates that the Waikato claim alone could amount to NZ$6 billion, based on current land values. For all claims, the sum could be as much as NZ$80 billion, according to independent economic consultant Brian Easton, whose estimate is based on the Maoris' slower economic development since they lost control over their resources.

Prime Minister Bolger, however, remains confident the Maoris will come round when they have fully discussed the proposals and recognize the government's determination to settle. The willingness of the Waikato to settle tends to support his view, analysts say.

But if they don't, the consequences could be grave. Lee says that a rising generation of young Maori leaders could find themselves dealing with land-claim arguments rather than helping their people become full citizens. ■

look at the facts

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LAND RIGHTS

Late Bloomer

Australia belatedly addresses Aboriginal grievances

By Jacqueline Rees in Canberra

Australia's record of dealing with the Aboriginal people, who occupied the continent before European settlement, has long lagged behind New Zealand's treatment of the Maori people. But in the last year, the situation has reversed.

The catalyst for that change was the so-called Mabo ruling by the country's High Court in June 1992. The ruling held that indigenous title to land had survived the act of sovereignty that came when the British unfurled the Union Jack on Australian soil in 1788.

The government of Prime Minister Paul Keating has sought with mixed success to give legislative effect to the High Court ruling. The bedrock of the legislation is the Native Title Act, which guarantees recognition of prior rights of Aborigines to land, and was passed by Parliament last year. A follow-up bill, the Indigenous Land Corporation Bill, which would provide A$1.4 billion ($1.09 billion) to buy land for Aboriginal people, is stalled in the Senate.

The historic High Court decision was the final act in a case launched more than 10 years ago by Eddie Mabo to establish that land on Murray Island in the Torres Strait belonged to his people under Australian common law. Mabo died just months before the court found in his favour.

In finding for Mabo, the High Court ruled that native title survived the Crown's acquisition and that Australia could not take away native title without paying compensation. A complicating factor was introduced when the court also ruled that any of Australia's six states could take away native title "as they please." The court found, too, that the states could not infringe the federal Racial Discrimination Act, which effectively meant they could not override Mabo.

Until Mabo, Australian law held that Australia was *terra nullis*, or vacant lands, before European settlement because Aborigines did not have cultivation or an organized system of culture and law. Although a national referendum in 1967 gave Aborigines full Australian citizenship rights and gave the federal Parliament power to make laws on Aboriginal affairs, successive federal governments did little to deal with Aboriginal claims to prior rights until 1992.

In 1976, Prime Minister Malcolm Fraser passed the Northern Territory Land Rights Act enabling Aboriginal people to claim unalienated Crown land in the Territory if they could show a connection to the land through their use of it or through sacred sites.

GREG WOOD/AFP

Land rights: Aboriginals rally in Perth.

Large tracts of Territory land were handed over to Aboriginal claimants and vested in Aboriginal land councils. Two large councils, the Northern and Central Land Councils, now own almost 40% of the land in the vast Northern Territory.

The South Australian government followed suit, returning 102,630 square kilometres of land to the Pitjantjatjara people in 1981 and 76,420 square kilometres to the Maralinga Tjarutja community in 1984.

A Royal Commission found that as of June 1989, Aboriginal people, who comprise 1.5% of Australia's population, hold 637,353 square kilometres of land, or 8.3% of continental Australia under freehold title. A further 4.9% of land, or 367,939 square kilometres, was held under leasehold.

The problem was that nearly all these holdings were in two states, the Northern Territory and South Australia. In Queensland, for example, Aborigines owned only five square kilometres.

The Keating government has sought to give political form to the Mabo judgment through the Native Title Act and Indigenous Land Corporation Bill. The Native Title Act gives Aboriginal and Islander people the right to land where they can show a continuing connection with that land. The government cannot take any more unalienated Crown land from Aborigines without paying compensation.

Aboriginal people have lodged claims before the tribunal set up under the act for a further 1.5% of the Australian mainland. Some of the early claims — that for Brisbane's central business district for example — have been quickly shown to have no foundation at all, but many others have been accepted for hearing.

Fears among some Australians that their suburban backyards would be subject to claims have been shown to be groundless. In fact, claims can not be made over lands which already have freehold or leasehold titles.

Last June, the government introduced further legislation to set up an Aboriginal and Torres Strait Islander Land Fund and the Indigenous Land Corporation. "The native-title legislation is fundamental to addressing dispossession," Keating explained, "and will benefit greatly those people who have been able to maintain a connection with their land sufficient to prove native title.

"Unfortunately, this will be a very small proportion of Aboriginal people, because the majority have been forced from their traditional lands," he continued. "The new bill is to allow indigenous people (who do not have land) to buy land and to manage and maintain it in a sustainable way to provide economic, environmental, social and cultural benefits."

The government intends that much of the A$1.4 billion to be given to the Land Fund over 10 years would be invested so that the fund becomes self-sustaining. The opposition Liberal Party and the minor grouping, the Greens, have blocked the legislation in the Senate, arguing that the fund is A$30 million short of what is needed.

The delays have caused disputes among Aboriginal groups, with some wanting the legislation delayed until funding is increased, while others see the delay as a ploy to ensure the legislation is never passed. The chairman of the Aboriginal and Torres Strait Islander Commission, Lois O'Donoghue, says: "The process of reconciliation among all Australians cannot succeed while the opposition parties continue to oppose major legislation to advance indigenous people."

The government is working on an interim funding mechanism for Aboriginal land acquisition to apply from early in the new year while it considers its reaction to the stalemate in Parliament. ■

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THAILAND

Alone in a Man's World

Female governor fights child prostitution

By Rodney Tasker in Nakhon Nayok, Thailand

Thailand is receiving a special New Year gift, courtesy of Charatsri Teepirach: At least one province can claim it is free of child prostitutes.

That is a tall order in a country where the United Nations Children's Fund estimates there are 100,000 child prostitutes. But Charatsri should know, because she is governor of Nakhon Nayok province, just northeast of Bangkok. She is also the country's first and only woman provincial governor in an administration traditionally dominated by men.

The 54-year-old Charatsri, an architect by training, had been governor for only nine months last year when Prime Minister Chuan Leekpai made a surprise announcement in New York. He said that one of his government's main policies was to wipe out child prostitution — and then mentioned Nakhon Nayok as one province where it could happen.

"Actually, we had started on this even before the prime minister mentioned it," says Charatsri. But she stepped up her campaign against the scourge, appointing a committee including the provincial police chief, deputy governor and social welfare boss to visit restaurants, hotels and massage parlours every two weeks to try to root out child prostitution.

"This was not just at the provincial level," she says, adding that the campaign has gone down to the districts also. In November, all four district officers reported to her that there were no child prostitutes in their areas. Charatsri is now confirming this herself, proclaiming: "I want to give this as a present to Thailand for the New Year — that our province completely has no child prostitutes."

While it is hard to verify the feisty Charatsri's claim, social activists have welcomed her efforts. Says a Bangkok spokesman for End Child Prostitution in Asian Tourism, an independent organization: "It's a very good strategy for a Thai official to take responsibility for this — it's wonderful, and we need more of this."

She sends medical doctors to target groups, teaching girls about the danger of Aids and other sexually related diseases. "We have to look after them in the schools and villages. If they have higher education, there will not be many prostitutes here."

In Thailand there is only six years' compulsory education. In many areas, particularly in the North and Northeast, young teenaged girls go into the flesh trade rather than continuing their studies. Poor families sometimes contract to sell their daughters to procurers even before they have finished primary school. In Nakhon Nayok, with its 230,000 population, 73% of children move on to non-compulsory secondary school. Charatsri hopes to boost this to 100% in 1995. "We pay more attention to the girls," she adds.

RODNEY TASKER

Governor Charatsri: priority on education.

Despite its closeness to Bangkok, the mainly agricultural province is still basically poor, though incomes are rising as the governor attracts more investment and sets up vocational training centres.

Charatsri says that on her provincial travels, women feel encouraged when they find out they have a female governor. "They come and talk to me. The men tend to stand back."

When she first arrived in February 1993, after leaving the Interior Ministry's Town and Country Planning Department where she was director-general, she had to make her authority known to the local police, used to working under a male governor. They also initially stood back and watched her, she says: "But we are lucky that the police chief is a good man." Police throughout the country are heavily criticized for reaping handouts from owners of brothels and turning a blind eye to the flesh trade.

Over at Nakhon Nayok police headquarters, acting police chief, Col. Pairote Ngausuwan, confirms that the formidable female governor has made her mark on the drive against prostitution. Pairote says a team of police checks restaurants, hotels and bars every day in Nakhon Nayok town, while another group fans daily throughout the rural areas. A total of 55 policemen are involved. "We have had good cooperation from the owners of these establishments, and this is the first step to protect the children. If still they do not follow our policies, we arrest them."

Pairote says some 40 owners of entertainment places were arrested in 1994 for allowing prostitution. But the girls were aged over 18. "To declare that Nakhon Nayok is the place of no child prostitutes is challenging," he says. "It must be proved — we must be careful about this."

But Pairote reflected the lady's determination to follow through her policy, which at first apparently meant some head-cracking among Nakhon Nayok's finest. "The police will give her the best cooperation to deal with this problem. Our lady governor is very active and intelligent. She can do everything a male governor can do."

Charatsri is well aware of her unique status as a female provincial governor. Having worked for many years in an Interior Ministry known for its male chauvinism, she is philosophical: "I always say if females are kept down, you lose half of the country. I don't fight for women's liberation, but if we utilize this portion of human resources, we can do things."

Apart from her drive against prostitution, Charatsri is helping to enhance her province's rural attractions and upgrade employment. She is moving Nakhon Nayok town's central market to turn it into a park. With a 5 million baht ($200,000) government budget, she is setting up a bird sanctuary and nature-study centre on the edge of Khao Yai national park, which covers a third of the province's 2,200 square kilometres. She is encouraging the province's booming flower and plant nurseries industry. "I aim for my province to be a garden city," she says.

Charatsri doubtless has her detractors in the Interior Ministry, resentful that a woman should claim such success in a position vied for among senior officials. There will also be many male officials who scoff at her claims on child prostitution given the entrenched nature of the flesh trade in Thailand. "But this lady's not for turning," as former British Prime Minister Margaret Thatcher once said.

Reflecting this theme, Charatsri thoughtfully says: "As a lady, I feel I have to work harder, because I am being watched." She is well aware of the pitfalls uniquely surrounding her. "If I fail there will be a good excuse for them [the ministry] not to appoint any more women as governors. So I have to work hard." ■

THE 5TH COLUMN

Stephen Vines was formerly editor of the *Eastern Express*, a daily newspaper based in Hong Kong.

Asia's Free Ride

By Stephen Vines

It is hard to think of any consumer durable which excites quite the same amount of passion as the motor car. It occupies a place of inordinate importance in many people's lives and has even become the outward symbol through which status is measured.

The trouble with cars is that their number almost invariably exceeds the capacity of roads to carry them. East Asia's prosperity has brought this disparity into sharp focus. Last month, Thailand's King Bhumibol Adulyadej used the occasion of his 67th birthday to implore his country's politicians to come up with a solution to its notorious traffic jams. In South Korea a recent government survey suggested that traffic costs the country some $11 billion a year. The Philippines is looking at taxing cars further.

Set aside the economic cost and think of the sheer frustration of sitting, as I have done, in a car on Roxas Boulevard on Manila's waterfront, watching in mounting horror as the traffic gridlock ensured that there was no way of reaching the airport in time for the flight I had booked — or even the one after that.

In Bangkok such are the problems of traffic paralysis that one enterprising businessman has started selling portable male and female toilets for emergency use in vehicles stuck in the interminable traffic jams that have made Thailand's capital infamous for lack of mobility.

No wonder Asia's governments have declared war on the private motor car (with the notable exception of cars reserved for the use of government officials). The view is that public transport and trucks have an unavoidable right to road space and should therefore be left alone. The thought of a sole person occupying precious square metres of road space while encased in a gleaming limousine sends shivers down the city planner's spine. Thus taxes are raised to a level where the price of ownership spirals out of the hands of all but the very wealthy. Does it work? Ask anyone in Bangkok whether congestion eased while Thailand laboured under some of the world's highest auto-taxation levels.

The reflex action of raising auto taxes, or taxes on the cost of ownership, has repeatedly been shown to be a failure. The simple fact of the matter is that the very rich will never be weaned from their vehicles; the struggling middle classes will continue to aspire to car ownership; and the poor will, by hook or crook, find a way to get hold of a car.

Frankly it is socially disruptive to make car ownership so difficult. A car is more than a mere means of transport. In some places — Hong Kong, for example — it satisfies the yearning for ownership put out of reach by spiralling residential property prices. In the Philippines and Malaysia, where national car development programmes are an explicit method of increasing car ownership, access to private transport is nothing short of a means of liberation for people in outlying rural areas.

> ‘Traffic congestion is a legitimate concern, but surely Asian governments would do better to target car usage rather than car ownership’

Traffic congestion, of course, is a legitimate concern, especially in developing countries where the problem threatens to become a key impediment to continued growth and investment. Surely, however, town planners would do better to target car usage rather than car ownership. While it is logical to curb car travel at peak hours and in areas prone to congestion, it is illogical to prevent people from owning cars and using them in areas that are not congested and at times when the traffic runs with relative ease.

The Singapore Government, which has greatly annoyed many of its citizens with its attempts to limit car ownership, is nevertheless showing a beacon of light by giving an equal amount of attention to the question of usage as opposed to that of simple ownership.

The central areas of town are restricted to the private user, with access gained only by paying an extra fee. The government is now fine-tuning a more elaborate method of electronic road taxation designed to ensure that those who use the roads most heavily pay more than casual users.

This approach at least contains elements of fairness and rational behaviour, and is fully consistent with the idea of charging the market price for the use of a service. It does not prevent car ownership but regulates car use in areas and at times when the greatest congestion is likely to occur. In Guangdong province, entrepreneur Gordon Wu built a privately funded highway and is charging for use. Why should other roads be any different, simply because they are built at public expense?

There are other usage policies, such as favourable treatment for car-pool users and better parking facilities at city centre feeder bus and train stations, which deserve further attention in Asia. Naturally, too, all policies aimed at restricting car usage should go hand in hand with those designed to improve public transport, but that, by definition, is likely to be a longer-haul proposition. It also would be a good idea to pay more attention to providing carrots as well as sticks for car users, particularly for drivers from outlying city areas who might be offered the carrot of significantly cheaper parking outside the city, making the inconvenience of transfer to public transport less onerous.

In the meantime, as they contemplate their priorities for the new year, Asia's planners might care to remember that we car owners have rights too. ■

TRAVELLERS' TALES

BLIND MAN'S BLUFF: A gallery in Tokyo has just held a successful exhibition of photographs — all of which were taken by a blind man.

Retired engineer Kuniaki Ito, aged 55, went on a 12-week world trip in summer and came back with more than 1,000 snaps.

He just pointed his camera at interesting sounds. His wife Nanae, 51, said she helped him with the angles while he was focusing.

The, er, unusual results include pictures of a tram in Hong Kong and children chasing doves in Italy.

In December the pictures were exhibited at the Shibuya Gallery, the *Asahi Evening News* reported. The "panels contain slanted angles and cut-off scenes that give the photos an energetic feeling," the newspaper enthused about the exhibition.

This photography lark can't be *that* difficult if even a blind man can do it.

INN YOUR DREAMS: Peripatetic writer Ron Gluckman was in Burma recently, where he was surprised to find the unmistakable logo of Holiday Inn, the world's biggest hotel chain. Only it was attached to a small, no-star guest house (*above*). He stepped inside, and behind a tacky counter in the tiny lobby, found the boss.

"Is this a Holiday Inn?" asked Ron.

"Yes," she replied, valiantly keeping her face straight.

"A *real* Holiday Inn?"

"Yes, the real thing," she said. She caught the eye of her co-worker, and they both nodded furiously. Ron asked to see the corporate brochures listing their more famous sister hotels around the world, but they were, er, out of stock.

Have a tale to tell? Call (852) 2508 4382, fax (852) 2503 1530 or write to GPO Box 160, Hong Kong.

HOUSE PARTY: Peter Beal of Thailand was intrigued to read in the *Bangkok Post* on November 20 that the House of Lords in London is also known as the "Supper house of parliament." I suppose they call it that because its elderly members have a nibble, a cup of tea and then go to sleep.

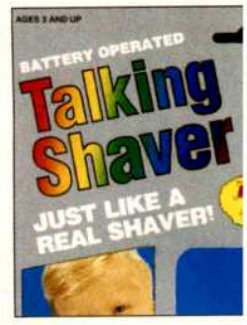
The title for
Big Dummy's Guide to the Internet
described on page 19 of The MIT Press 1994 catalog
has been changed to
Everybody's Guide to the Internet.
All other bibliographic information remains the same.

The MIT Press
Cambridge, Massachusetts, and London, England

INTERNUT: This correction card arrived at my desk from a publisher in the U.S. I don't know about you, but I'm *really* insulted.

WHAT GOES UP: Some Malaysians are nervous about the longevity of buildings after the collapse of the Highland Tower condominiums last year. That's why David Yong, an analyst with J.M. Sassoon in Kuala Lumpur, is concerned about the slogan of Kim Realty, a property company in Petaling Jaya: "These properties won't last long."

CHIN UP: Pouring out of factories in China for the international toy market is this wonderful plaything from 200 Toy Inc. of America. I'm embarrassed to admit that I have never once had a conversation with my shaver.



WATER DAFT CLAIM: Buy a bottle of Mekong brand mineral water, made by Sowin Co. of Soc Trang Province, Vietnam, and you'll notice a claim on the label: the water is "20,000 years old." This was pointed out to me by Brian Greenfield of Hanoi, who said: "They seem to have been inspired by the advertising of Johnnie Walker's 12-year-old scotch."

I'm not sure that water can have an age. It's just sort of *there*.

ONLY IN ASIA: Several readers say they like catching up with the amazing-but-true stories of Asia through this column, so, at no extra charge, here's a round-up of important recent snippets:

- Five people were arrested on drug charges in Khon Kaen Province, Thailand, in mid-December, including the abbot of a monastery and his chauffeur.
- Pet Plan 100, a Tokyo company, is charging $4,000 a month to rent out "office dogs" during office hours, as their presence cuts white-collar stress.
- Hong Kong construction worker Wong Man-fai found almost $100,000 had been accidentally deposited in his account — so he went straight to the casinos in Macau and lost most of it.
- China, that famous non-religious communist country, plans to use 160 kilograms of gold and 10 kilograms of platinum to build a diamond-encrusted Buddha.
- Koyo Engineering of Japan announced it is developing the Aqua Space Car, a vehicle which runs on rails on land and under water, ideal for island-hopping.
- Put fragrant oil on your fingers and rub the old trees at a temple in Samut Prakan, Thailand, and you will eventually see the winning numbers of the national lotteries in the patterns on the bark, say crowds of lottery ticket buyers. ■

WARNING:

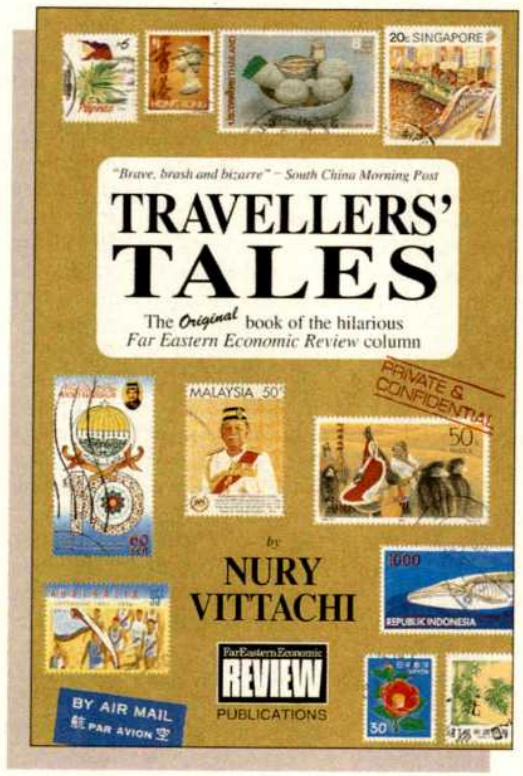
Do Not Read in a Public Place
May Cause You to Laugh Out Loud

TRAVELLERS' TALES

By Nury Vittachi

No one captures the absurdities of modern life in Asia like Far Eastern Economic Review Travellers' Tales columnist Nury Vittachi and his huge network of spies. You find them in every corner, hobnobbing with the great and the ghastly. "I cannot be bought," vows Vittachi. "But I can be bought lunch."

If you like the Travellers' Tales column, you'll love the book.



This hilarious collection's got it all:

- Hong Kong's "Atomic Enema"
- The Indian barber-circumcisers who snipped more than hair
- The Singapore hotel with karaoke in every room
- Cambodia's "Aggressive Hotels Group"
- The Taiwanese foodstuff called "Boring Pie"
- The Filipino male underpants called "Hang-it-Out"

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FRANK CHING

EYE ON ASIA

Malaysia Returns to English

Mahathir plans liberalization of its educational system

After forsaking the English language and turning to Bahasa Malaysia as a nation-building tool, Kuala Lumpur is discovering the high price it has had to pay in economic development. Once again Malaysia is trying to reach outward through the use of English.

In recent weeks, senior Malaysian officials from Prime Minister Datuk Seri Mahathir Mohamad on down have touted the value of English. Education Minister Datuk Sulaiman Daud said in December that the law would be changed to allow English to be used as a medium of instruction in institutions of higher learning. He explained that the current law — which makes it illegal to teach in English — was a hindrance to the community. The restriction, he explained, "does not allow for recruitment of foreign teaching staff who are efficient in English but not in the national language."

Prime Minister Mahathir goes further. He has told Malaysia that the choice is between learning English — to become a respected and developed country — and sticking with Malay and being left behind by its neighbours and competitors. In terms of trade, he says, if Malaysians aren't proficient in English, then "our trading will be confined to domestic transactions. . . . If we believe that besides preserving the nation we should develop the country, then a suitable approach has to be worked out."

Moreover, he has said, "if we want to be good managers, we have to master English except for those whose dealings do not require them to be proficient in the language. This is regardless of whether they want to be in the private or public sectors."

At a time when the globe is shrinking, no country can afford to focus only on its own language and culture. Even China, the world's most populous country, is encouraging its students to study all manner of foreign languages. For the leader of any country to decide not to do so would be like competing with the rest of the world with one arm tied behind his back.

Actually, Mahathir has recognized for a long time the importance of the English language for Malaysia. English, after all, is the language of international commerce as well as of international diplomacy. Because Malaysia was a British colony, it had a tradition of English-language schools, but a strong sense of nationalism made the country turn inward, to Bahasa Malaysia, and spurn its English-language heritage. In Singapore, a similar move by conservative Chinese to abandon English was defeated by Western-educated Chinese.

Mahathir's plans go far beyond the recruitment of a few foreign teachers. He is planning to liberalize the whole education system. In the mid-1980s, Malaysia introduced the "twinning" system under which local private colleges offering one, two or three years of instruction were twinned with foreign institutions by preparing their students for the final years abroad. Because twinning was meant to prepare students for English-language exams, the government, pragmatically, never raised the issue of medium of instruction. And because the foreign institutions have no racial quotas, the twinning institutions in Malaysia also were exempt from the racial quotas to which government universities are subjected. As a result, the vast majority of students in twinning programmes are ethnic Chinese. In government universities, 55% of the places must be reserved for Malays.

Similarly, branch campuses of private institutions such as London University will have to be operated in a way acceptable to their parent institutions. That means, first, that there can be no restriction on the medium of instruction, and no compromise on educational standards. It probably means too that these private universities will not be subject to racial quotas. This will make it easier for Chinese to enter university in Malaysia.

There are many advantages to be derived from having foreign institutions operate in Malaysia. One is the prestige. Not only will Malaysia become the first country in Asia to host a branch of London University (which has shown keen interest in such a move), it is likely to attract bright students from countries around the region to attend these private universities. It will be quite a feather in Malaysia's cap if Asian students should choose to go to Malaysia to attend university in the future instead of going to North America or Europe.

There are also more practical considerations. Malaysia today sends large numbers of students overseas for advanced studies each year. If prestigious educational institutions open branch universities in Malaysia, these students won't have to leave home and Malaysia will save substantial foreign exchange.

The latest decision to amend the law to allow foreign universities to operate in Malaysia comes a year after Mahathir took initial steps to tackle the nettlesome language issue. Last year, the prime minister announced that certain technical subjects could be taught in English at tertiary institutions because science was developing so rapidly that technical books could not be translated quickly enough into Bahasa Malaysia. Now, he is making it clear that Malaysia's economic well-being requires beefing up English-language skills across the board. ■

> "The prime minister is making it clear that Malaysia's economic well-being requires beefing up English-language skills across the board"

MICHAEL VATIKIOTIS

Mahathir: clear message.

FarEasternEconomic
REVIEW

Where to Put Your Money

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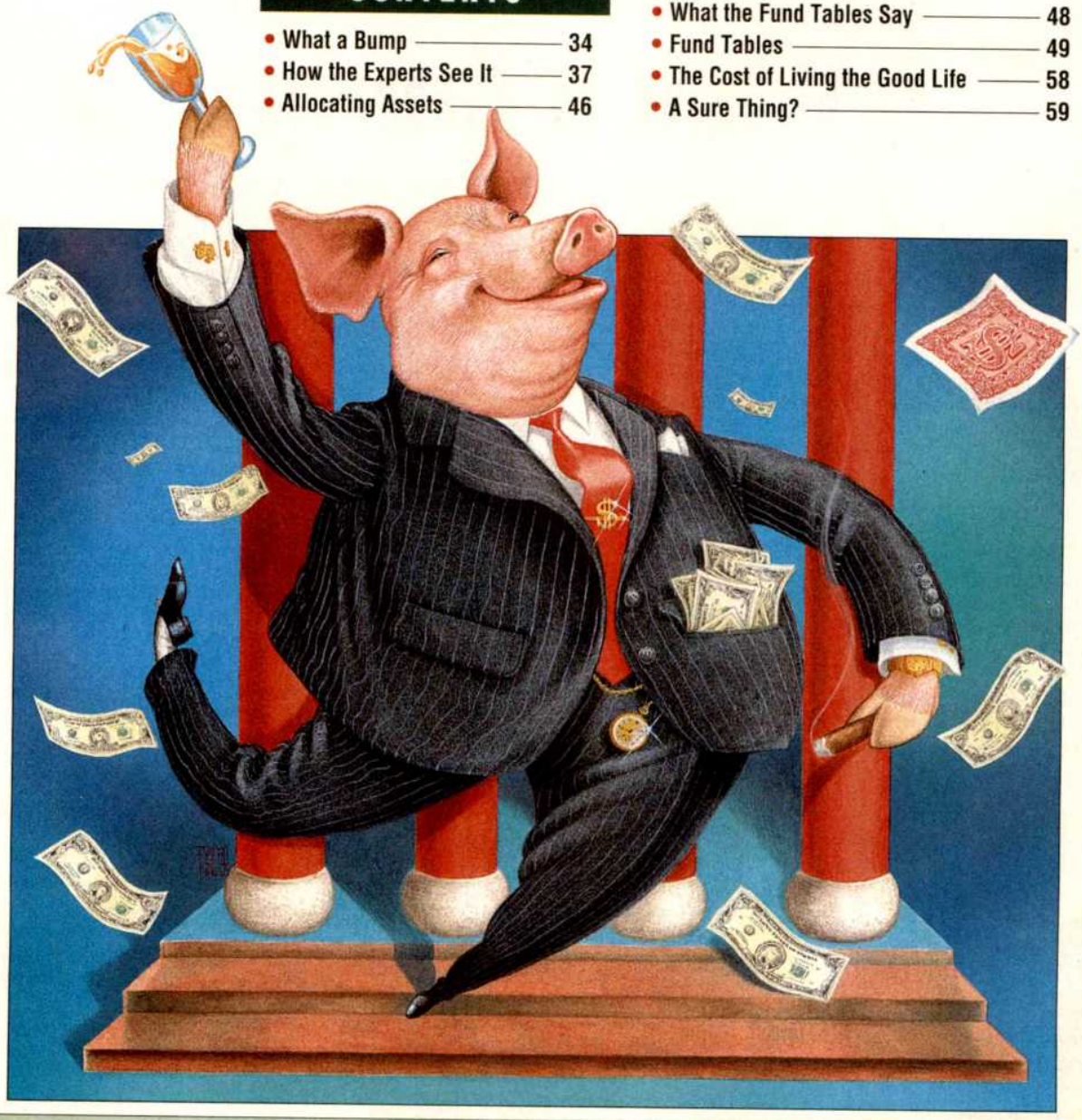


Look Out Below

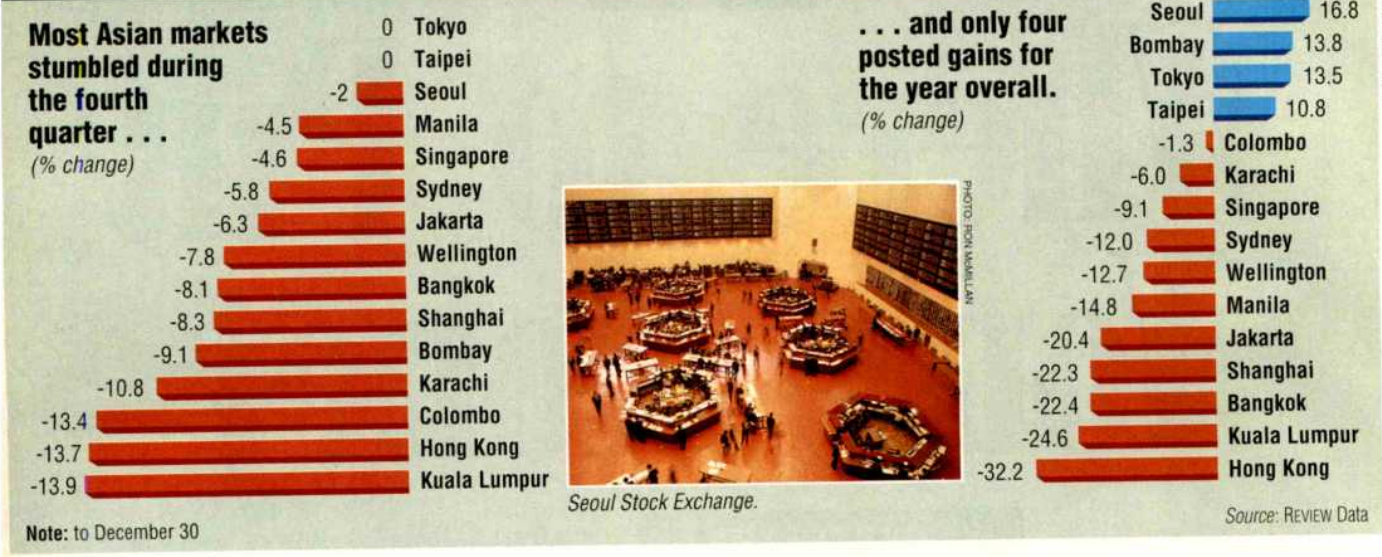


PHOTO: RON McMILLAN

Seoul Stock Exchange.

What a Bump

After sliding last year, Asian markets ought to come bouncing back. But when?

By Henny Sender

As if 1994 hadn't already been cruel enough to Asian equities, along came the fourth quarter. While at least a few markets posted gains for the aptly named Year of the Dog, none did in the final three months (*see chart*).

The reason: rising U.S. interest rates. Ironically, they hurt Asian stockmarkets even worse than they did Wall Street (Southeast Asian markets fell on average about twice as far as the Dow Jones Industrial Average). "Asia has somewhat overreacted," says Robert Hegt of HSBC Asset Management in Hong Kong. "It was worse than we expected. We expected it to be flat; instead it went down further."

Not only was the selling greater than most fund managers expected, but regional exchanges showed surprising volatility. In the first week of December alone, many markets in the region dropped 5-10%. Has Asia gone to the bears? NatWest Investment Management's chief investment officer, John Quinn, has little doubt. The sure signs are "depth and duration," he says. "We are in a bear market."

But for how long? The Year of the Pig, like most others, opens amid gloomy sentiment. But bulls are already discernible on the horizon. U.S. rates, for instance, should top out by mid-year. Is that the cue the next boom is waiting for?

"At some point, Asia will split from Wall Street," Hegt predicts. "Liquidity is still abundant; earnings are good."

In Hong Kong, Aetna Investment Management's Bill Barron agrees: "Earnings growth will be the saving grace. The story is still intact. Asia is still where the growth is. The next wave [of foreign investment in regional stocks] will be huge."

That would cheer up Hong Kong, which lost almost a third of its value last year, more than any other Asian market outside of China. Non-property blue chips such as **Hongkong Telecom** and **Hongkong Bank**, two of the largest positions in HSBC Asset Management's portfolio, held up fairly well, but many smaller companies lost 50-60% in 1994.

RON McMILLAN/ECHO

Hongkong Bank held up fairly well.

But the worst may be over for them. That's why Graham Muirhead, a director at HSBC Asset Management, is studying smaller companies, many of which "are priced as if they are going bankrupt," he says. Muirhead has also compiled a list of directors who are buying back their company shares at depressed levels.

Among them is property company **Great Eagle**, whose shares plunged last year to HK$3 (39 U.S. cents) from HK$8, even though its net asset value is almost HK$12. Muirhead sold down his position several months ago. Now, he notes approvingly, Great Eagle chief K.S. Lo is snapping them up.

Muirhead is also considering second-liner **Amoy Properties**, whose chairman, Ronnie Chan, has also been accumulating the shares. Even blue-chip **Hongkong Land**, currently trading at around HK$15, is a bargain: Its net asset backing is almost three times that.

Muirhead's strategy is risky, though. One of the lessons of 1994 was that even the largest property companies aren't safe havens in volatile times. Among Hong Kong's hardest-hit investors are those who were heavily exposed to the sector last year.

"Everyone overweighted the property-investment companies and everyone did badly on them," Muirhead notes. And if net asset values are revised down, these

shares may no longer seem so attractive, even at their present lows.

For NatWest, concern about earnings growth dictates caution towards Hong Kong. "At these levels," says Quinn, referring to the property companies, "the market is discounting everything except a severe downturn." Quinn recommends **HKR International**, which is trading at a price-earnings ratio of six, has lots of cash on its balance sheet, and is riding a boom on the colony's Lantau Island.

NatWest likes certain conglomerates, particularly **Hutchison Whampoa**, one of the largest holdings in its Hong Kong portfolio, and **Swire Pacific**. NatWest also holds H shares (Chinese companies listed in Hong Kong) such as **Yizheng Chemical Fibre**, and red chips (Hong Kong-listed companies with sizeable exposure to China) like refrigerator maker **Hualing**. But because of their volatility, "You don't fall in love with them," says NatWest director Robin How. "You trade them."

Fidelity Investment Management's Peter Phillips looks at earnings quality as well as valuations. One of his current favourites is **South China Morning Post**, which has strong cash flow and a favourable price-earnings ratio. He also likes small banks that were hammered in the last quarter — such as **Union Bank** and **Ka Wah** — but which he believes will be protected by their mainland Chinese connections.

Phillips is staying clear of retailing, a sector he thinks is still under pressure. Indeed, many fund managers have sold down their holdings of **Goldlion**, **Giordano** and **Cafe de Coral**.

One bright note: Few fund managers believe Hong Kong firms are as likely as others in Asia to harbour massive losses on treasury activities. "They don't gear up here like they do elsewhere during the boom times," says Muirhead.

One of 1994's most important lessons was that closed markets can work as a sound diversification strategy. South Korea and Taiwan were the hot performers in an otherwise cold year. "Korea had the lowest sensitivity of any market in the region to rising interest rates in the U.S.," says NatWest's How.

How's Korea plays include **Kepco**: He expects it to receive a tariff increase soon, and it would benefit from the anticipated weakening of the yen, a currency in which it borrows. How also likes the consumer sector. He recommends retailers **Shinsegae** and still-cheap **Hai Tai**; and **Shin Won**, the country's third-largest knitwear manufacturer. Shin Won is using its earnings to diversify into retail (using Benetton as a role model).

Although Japan disappointed many fund managers in 1994, its performance was, by the depressed standards of the region, perfectly respectable. If you were dollar-based, better still. In yen terms, the Nikkei 225 Index rose 13.5% during the year. In dollar terms, however, it rose a hefty 28%. With hindsight, Tokyo wasn't a bad place to be.

How Dare You

"Returns" column measures the average return *(dividends reinvested)* **of each sector over the past three years.**

"Risk" column measures the average volatility of each sector each month over the past three years.

	Average % return	Risk
Philippines equities	229.10	10.4
Thailand equities	149.34	8.4
Asean equities	142.06	7.2
Malaysia equities	134.76	9.0
Malaysia & Singapore equities	132.67	7.8
China equities	127.26	N.A.
Singapore equities	107.07	7.9
Hong Kong equities	90.05	8.8
Far East (exc. Japan) equities	88.17	6.7
Emerging Markets equities	79.84	5.6
Far East (inc. Japan) equities	57.81	5.7
Taiwan equities	55.11	7.8
Indonesia equities	47.95	6.8
U.S. equities	35.12	4.1
Australia & New Zealand equities	33.43	5.3
North America equities	30.22	3.6
South Korea equities	28.76	6.3
Europe equities	28.71	3.9
Commodities	23.70	5.0
Derivatives	23.62	5.6
International bonds	18.23	2.8
Britain equities	16.63	5.0
Deposits	15.99	2.6
Warrants	14.63	14.1
Japan equities	11.02	7.0
Managed currencies	7.30	2.6
Canada equities	1.01	3.6
Properties	-0.61	4.8

Source: Micropal

REVIEW GRAPHIC: RINGO CHUNG

KEES

Giordano: still under pressure?

Still, the second half was nothing to bark about. In yen terms, the market fell 7% from its highs of June. Furthermore, half the stocks on Tokyo's first section fell more than 20% in the half.

"This was one of the hardest years to beat the market," says Mark Fawcett, investment manager with Indosuez Gartmore Asset Management (Japan). "Everyone underperformed," adds Brad Frishberg, a fund manager with Aetna in Hong Kong. "And the stocks that foreigners favoured got hit the hardest."

Compared with those investing in Southeast Asia, though, Japan fund managers sound positively ebullient. Fawcett thinks the Nikkei 225 will be trading at 22,100 by April, up 12% from its 1994 close. That's better than the 20,500 consensus produced by an informal poll of Tokyo fund managers recently.

Come May, though, he isn't so sure. "We did a seasonality study," he says. "Every year, the market performs best in the first five months. There is a basis for the saying, 'sell in May and go away'."

Fawcett's biggest bet currently is with **JGC**, which specializes in plant engineering and should benefit from Asian demand for petrochemical plants, oil refineries and the like. "They have the best technology in the world, and they're trading at 26 times bottom-of-the-cycle earnings," Fawcett says. The shares "will double in time."

Smaller companies comprise half of Fawcett's portfolio. His picks include **Autobacs Seven**, which supplies auto parts to retailers, and **Nissho Electronics**, which imports chip components from the U.S.

Fawcett continues to overweight electronic companies, although by less than in 1994. Other picks include **TDK**, which he has long held on the strength of its Silicon Systems U.S. subsidiary, and **Amada Metrecs**, which makes numerical controls and has done a particularly good job of reducing staff (to 1,600 from 2,000 since the recession began) and cutting costs.

But he has sold his position in last year's favourite, **I-O Data**. "The margins have disappeared," he says, "and they're diversifying into areas where they will face much more competition." He's also

underweighting banks, and strongly recommends avoiding food stocks, which will face growing competition from cheap imports.

At Aetna, the mood is upbeat as well. "Given the earnings growth, valuations aren't so horrible," says Frishberg. "I could raise cash, but I'm investing now."

But only selectively. At these levels he finds **Sega** a bargain, especially given that initial sales for its 32-bit game machines are ahead of forecasts. He is far more sceptical of Sega's rival **Nintendo**.

His two biggest bets are **Nissan Fire & Marine** and **Hitachi Zosen**. The market views Hitachi Zosen as a shipbuilder, but it also is in the power plant and environmental-equipment business. Its order book, says Frishberg, is substantially stronger than market consensus.

Frishberg also holds **Bank of Tokyo** and healthier regionals such as Kyushu-based **Hego Bank**. For those bullish on equities, he advocates trust banks such as **Sumitomo Trust & Banking**, which he says perform as options on the market.

One of Frishberg's latest purchases is **Maruco**, a manufacturer of lingerie. This is no ordinary underwear, mind you: A set of 12 undergarments retails for an average ¥350,000 ($3,500). Maruco sells "body shaping" underwear computer-customized at one of its "salons." Frishberg likes the company partly because the chairman holds 48% of the stock.

That also explains why Frishberg holds **Nissin**, a mail-order company 90%-controlled by the founder and his family. "We have the same interests at heart, that way," Frishberg says.

Among the most volatile markets has been the Philippines, which lost 15% in 1994. But hope, like natural catastrophe, seems endemic to the place. Aetna's Barron is among the most hopeful and overweight.

"It's a classic deregulation story," he says. "There are huge capital inflows, interest rates are going down, and the peso is strengthening. And while everyone in Hong Kong is revising down earnings, here everyone is revising them up."

Barron has sold off **Meralco** and **San Miguel**, two perennial favourites with foreigners, because they no longer offer good value. He is shifting to consumption plays such as **Filinvest**, a middle-market housing company, and **S.M. Prime**, which owns the Megamall chain and charges its tenants a percentage of sales.

Barron is also a relative bull when it comes to Indonesia; he's been overweight Jakarta for most of last year. For 1995, he expects 30% earnings growth and a helpful tax cut for both corporations and individuals. But he is leery of certain sectors, such as property, and is absolutely unforgiving of firms whose earnings were disappointing (such as **Barito Pacific**, down 41% from its peak). Barron is neutral on banks. "Investing in Indonesia," he says, "is a process of elimination."

Barron prefers consumption plays such as the two stars of the past year, clove cigarette makers **H.M. Sampoerna** and **Gudang Garam** (up 13% in a falling market during the fourth quarter) and **Sona Topas**, which runs the duty-free shops at Indonesian airports. He's also buying industrial plays more selectively, including glass maker **Mulia Industrindo** and cement maker **Semen Gresik**.

While HSBC's Hegt also likes Indonesia and considers it the safest market to be in this quarter, he suggests avoiding both banks, whose borrowers may be hurt by rising interest rates, and **Indofood**, whose profit performance has been disappointing.

By contrast, many fund managers are fretting over Thailand. They fear high price-earnings ratios and increased competition for telecoms companies such as **Shinawatra**, and many expect dilutions from endless rights issues by Thai banks. They're also leery of property companies (because they are sensitive to rising interest rates), and have dropped media companies. **Post Publishing**, for example, fell 25% in one day.

Fund managers continue, however, to carry positions in cement companies such as **Siam Cement** and **Siam City Cement**, and despite the certainty of rights issues, they hold first-line Thai banks, notably **Thai Farmers Bank**.

Investors are generally underweight Malaysia as well. "It held up better in the third quarter, and was the worse in the fourth," says Hegt. Banks were particular underperformers. Still, there are some, like **Public Bank**, which he says will benefit from rising interest rates this quarter.

Hegt's recommendations at the moment include **Genting**, which did well even in the fourth quarter, and **I.O.I**, a plantation company developing its land holdings and buying new sites.

In summary, fund managers advise selectivity, not despair — even for those who bought this time last year, when Southeast Asia markets were peaking. "This," says Fidelity's Phillips, "is a good time for those with a long time horizon. There is good value. Hindsight will tell you that this is the time to be investing — although it may not be the only time. Stocks are cheap — though they could be cheaper." ■

Go To Rio

Brazil funds again lead the list of recent winners in emerging markets. But investors in South Korea also earned big returns.

Top 10-3 months		Bottom 10-3 months	
SAM Brazil	28.55	Satang Daeng Two	-17.18
Opp Brazil Aggressive Equity	26.26	Fleming FF Eastern European	-17.38
Brazilian Investment Trust (Und)	24.07	Danubia-Invest	-17.83
Daehan Intl Investment Trust	22.52	Argentinian Investment Co.	-17.91
First Korea Smaller Cos	22.10	EMTR Fund SA (e)	-18.30
Peruvian Inv Co.	21.63	Banque Belge AMF India	-18.69
First India Investment Fund	20.02	Dresdner-Thornton AS China	-19.02
Schroder Korea	19.52	Adkinson Growth Fund	-20.53
Daehan Korea Emerging Growth	19.49	Satang Daeng	-20.57
Pionero	19.41	Creditanstalt Central Europe	-20.93

Top 10-12 months		Bottom 10-12 months	
Emerald Equity	140.02	Republic Latin Am Venezuela	-24.68
Brazilian Investments SA	139.22	China Fund	-25.67
Daehan Intl Investment Trust	102.27	Nigeria Emerging Market Fund	-26.77
Brazvest Fund Ltd.	101.90	Alliance World Dir Govt Inc.	-29.07
SAM Brazil	95.04	MBf Thailand Fund	-29.18
First Brazil Multi-Portfolio	94.28	Lloyd George SC China Fund	-31.84
Daehan Korea Emerging Growth	92.56	JF China Trust	-32.07
Equity Fund of Brazil	91.38	Creditanstalt Central Europe	-32.15
Eagle Fund Inc.	88.75	Dresdner-Thornton AS China	-35.96
Brazilian Investment Fund Inc.	81.13	Turkey Trust	-36.95

Top 10-5 years		Bottom 10-5 years	
Toronto Trust Chile Fund	647.26	MBf Thailand Fund	-13.83
Chile Fund	504.89	Portugal Fund Ltd.	-14.04
Genesis Chile Fund Ltd. (Und)	483.31	Taipei Fund	-15.21
New World Investment Fund	437.76	Oporto Growth Fund	-17.24
Mexican Investment Co.	345.01	Formosa Fund	-20.73
JF India	336.29	Korea Small Companies Trust	-23.09
Mexico Fund Inc.	310.76	CSITC China	-41.40
Aetna Asia Trust	262.41	GT Korea	-42.62
JF Thailand	261.83	Baring Korea Fund	-47.12
Templeton Emerging Markets Inc.	251.18	MBf Indonesia Growth	-70.76

Overall leaders Overall laggards

Note: For period ending November 30, 1994
(Singapore, Hong Kong and Israel funds are not included in above rankings)

Source: Micropal

REVIEW GRAPHIC/ RINGO CHUNG

How The Experts See It

Crawling from the wreckage

Defensive investment remains the order of the day. The REVIEW's experts say U.S. interest rates will head higher and corporate earnings in Asia might disappoint. How to weather the storm? Suggested safe havens range from slimmed-down Japanese manufacturers to overlooked convertible bonds and a surging New Zealand dollar.

Our panel comprises:

- Diahann Brown, senior fund manager at Thornton Management (Asia).
- William Ebsworth, chief investment officer at Fidelity Investments.
- William Kaye, managing partner at Asian Hedge Fund.
- Winnie Lee, director at Aetna Investment Management.
- Elizabeth Tran, chief investment officer for Asia at IDS Fund Management.

Review: What will happen with interest rates and what is the implication for Asian markets?

Brown: We think the bulk of U.S. interest-rate rises have taken place. Markets in this region have, to a greater or lesser extent, reflected this, with the exception of Hong Kong because of its property problem. Certainly for the first quarter we will be looking at markets that are less vulnerable to U.S. rates, mainly Korea and Taiwan. We still like the Philippines and Singapore. And I guess when the interest-rate outlook is more stable, we will be looking at Hong Kong.

Lee: Asia has probably seen the worst of it. However, our main concern is we haven't seen a lot of redemptions from U.S. equity funds yet. The uncertainty is whether there will be more if the yield for money-market funds continues to go up.

Review: And how high will rates go?

Lee: We are looking for 150 to 200 basis points at the short end, mostly in the first half. For the long end, we are looking for the yield to go back up to 8.5-9.0%. We believe that in the first half, growth in the United States will be higher than expected and the Fed will have to stamp it down. We believe Asian markets will move in line with the United States and probably outperform the U.S. because we have seen more of a correction in Asia.

Tran: We are still very defensively positioned because we're looking for a couple percent at the short end in the United States next year. We don't think that at the long end we're going to get much vulnerability. In fact, we prefer bonds to equities at this stage. Our cash position is pretty much at maximum. On currencies, we're looking for the dollar to strengthen because of higher interest rates in the U.S. The market we like most is Japan, because it's the least vulnerable to U.S. interest-rate trends.

Kaye: I think the U.S. still has 200 basis points to go on the short end. But I'm pessimistic about the long end as well. It's hard to be optimistic because the competition for capital continues to escalate, with worldwide savings increasing arithmetically and demand for capital increasing exponentially. There will be no global capital shortage, but the imbalance gets satisfied at increasingly high real costs of capital. If this trend continues through 1995, equities and bond values will continue to come down. Somewhere around mid-1995 or late-1995, I think there will be a buying opportunity. We are probably halfway there.

MARK CLIFFORD

Winnie Lee is a director of Aetna Investment Management (Hong Kong) and specializes in the stockmarkets of Singapore and Malaysia. Before joining Aetna in 1987, she was a fund manager for Fuji International Finance.

Ebsworth: There are two reasons why we are concerned about rate hikes. One is that in Asia itself there's more domestic inflationary pressure. It's not just that our rates are exposed to the States; it's indigenous. The other is that capital, at the margin, is getting more expensive.

Kaye: And when the United States is importing savings from outside its borders you've got a heinous problem. The reason I'm not that optimistic the United States is going to quit guzzling capital is I think it's going to make a successful transition from being a consumption-led to an export-led economy. The United States is *the* low-cost producer of practically every valued-added product in the world. We're very early in the stages of the economy making that transition. It will be very good for the dollar. But an even better currency to own is the New Zealand dollar, the Singapore dollar and the Malaysian ringgit.

Ebsworth: I see investors going to more-neutral positions worldwide, downweighting Southeast Asia, where earnings are decelerating, in favour of companies with accelerating growth in Europe and Japan. However, within Asia, a sell-whatever-you-can correction disproportionately punished liquid markets like Hong Kong and liquid stocks like Indonesian blue chips. In both cases, we see oversold bargains. We also like selected Taiwan companies.

Kaye: We are still net short. We are not as short as we were a few months ago, since a lot of the risk has been taken out by the downturn to date. But we are still not optimistic. I think the Asian markets will perform inversely proportional to the real economies. If the real economies continue to surprise on the upside, the financial markets will continue to surprise on the downside. And my feeling at the moment is that they will.

Review: Will the markets remain vulnerable through the first quarter?

Tran: They are going to be vulnerable until interest rates peak. The timing is really the question we can't answer.

Lee: Next year, fund managers will have to be fast. I don't believe people will wait for rates to peak before they go in. When the time comes that people are talking about when rates will peak, then I think you can move into more-aggressive markets, like Hong Kong and Thailand. But I think in the first half in general, people should and probably will be defensive.

Brown: I agree with Winnie. People are looking for interest rates to rise and then stabilize in 1995. Markets are going to react before that happens. The first quarter could still be a bit volatile. But in general, I would certainly be looking to move away from the more defensive position we have and look to some of the other markets in the first quarter.

Ebsworth: We are generally looking for a peak in China's inflation by mid '95. This could coincide with a U.S. rate peak and provide a better global environment

for equities. In the meantime, we're going to be extra vigilant for earnings disappointments since bull market-baby brokerage analysts have such limited experience anticipating downward earnings revisions.

Review: Bill, what is Fidelity's experience with redemptions?

Ebsworth: More rumours than reality. The talk of massive redemptions wasn't consistent with Hong Kong trading only HK$3 billion [$390 million] a day. While it could happen, we haven't seen it yet. The rumours have been fanned by investors and brokers who sold short in the market.

Brown: We've been talking about redemptions for the last six months. In our single-country funds, which tend to be more volatile, we see some, but very little in regional funds.

Review: So, will liquidity be a problem?

Lee: Actually, one of the scenarios we are expecting is that more U.S. pension funds will get back into Asia. They are waiting for the market to stabilize. We believe it will probably be mid-1995 when we see that inflow of money back into Asia. Because basically if you look at the percentage of pension money in regional markets, it's very small.

Tran: There is no question that U.S. institutions are going to increase international. But the critical question is interest rates. They were driven to raise equity positions and high international positions by a long bond rate below 7%, because they need a return of 8-9%. If you can get that in U.S. long bonds, why would you raise the risk profile of your fund?

Review: Elizabeth, perhaps you can explain why you like Japan.

Tran: We like the manufacturing sector. The growth that we're seeing and the capacity-utilization problems you have in the United States and in Southeast Asia have resulted in a much better showing on the part of Japanese manufacturers that export. In the machine-tool sector you're seeing sales growth in excess of 50% for some companies. GM is buying steel from **Kawasaki** from the first time in 17 years because there is no capacity in the United States. We like **Fuji Machine**, **NGK Spark Plug** and **Nippon Denso**.

Review: Have Japanese producers become more competitive?

Tran: They have achieved the seemingly impossible at the operational level, which is to raise efficiency. You see it in the results. Take a company like **Fanuc**. Sales are down but profits are up. They have re-engineered their process. So we have increased our Japanese exposure.

Kaye: The problem with Japan is valuations; it's the same problem as it's been for some time. And I am pessimistic on the degree of pick-up in activity.

GERHARD JORENREVIEW

Elizabeth Tran is the chief investment director in Asia for IDS, an American Express company. She began her fund-management career in London in 1975 after graduating from Oxford. She has lived in Hong Kong since 1980.

Kawasaki Steel and **Nippon Steel** can sell into the United States for a while. But that is the world standing on its head because they are *the* high-cost producers. Eventually, growth in the United States does head down in 1996, at which point that situation corrects itself. But I do agree Japan is probably technically less vulnerable than other Asian markets.

Ebsworth: I'd disagree with Bill about valuations. Many stocks are back in attractive territory. Take **Yamanouchi Pharmaceutical**, a blue chip. Global roll-out of their prostate drug should power mid-teens earnings growth over three years. The only problem with Japan is that dollar-based investors will see holdings devalued by any yen weakness.

Tran: I think that in the manufacturing sector, it's easy to imagine a doubling of profits over the next two fiscal years. But the financial sector will drag down the index earnings growth.

Review: In Japan, what companies are most geared to recovery?

Ebsworth: Small companies are generally the biggest beneficiaries of the upturn. Our Tokyo team likes **Belluna**, a low-cost catalogue retailer; **Square**, which produces game software; and auto-parts makers **Yamakawa Industries** and **Kiriu Machines**.

Review: And South Korea?

Tran: They've had their earnings growth, and the fillip from the yen's appreciation. Now, they're suffering from full capacity utilization, inflation and higher capital costs. Look at steel, for example. There's only a 10% price difference between Japanese manufacturers and Korean manufacturers.

Ebsworth: One thing you have to be cautious about in Korea is that locals control that market; it's still largely closed. Locals are reactive, and they're going to love the '94 results. Short-term, Korea has further upside. But for the long term, I think we would share a little bit of concern.

Review: Last time, several of you were optimistic about Taiwan.

Ebsworth: We still like companies like **United Microelectronics** and **Acer**. Korea needs the strong yen to be competitive, but Taiwanese companies have the technology to take market share from Japan even with some yen weakness.

Brown: A lot of cyclical companies in Taiwan that have been losing money or making very little money in the last two or three years are seeing profits go through the roof. You are seeing that in the plastics, paper, textiles, steel and petrochemical sectors. Preliminary estimates of the first three quarters show over 60% profit growth.

Review: Do you have recommendations?

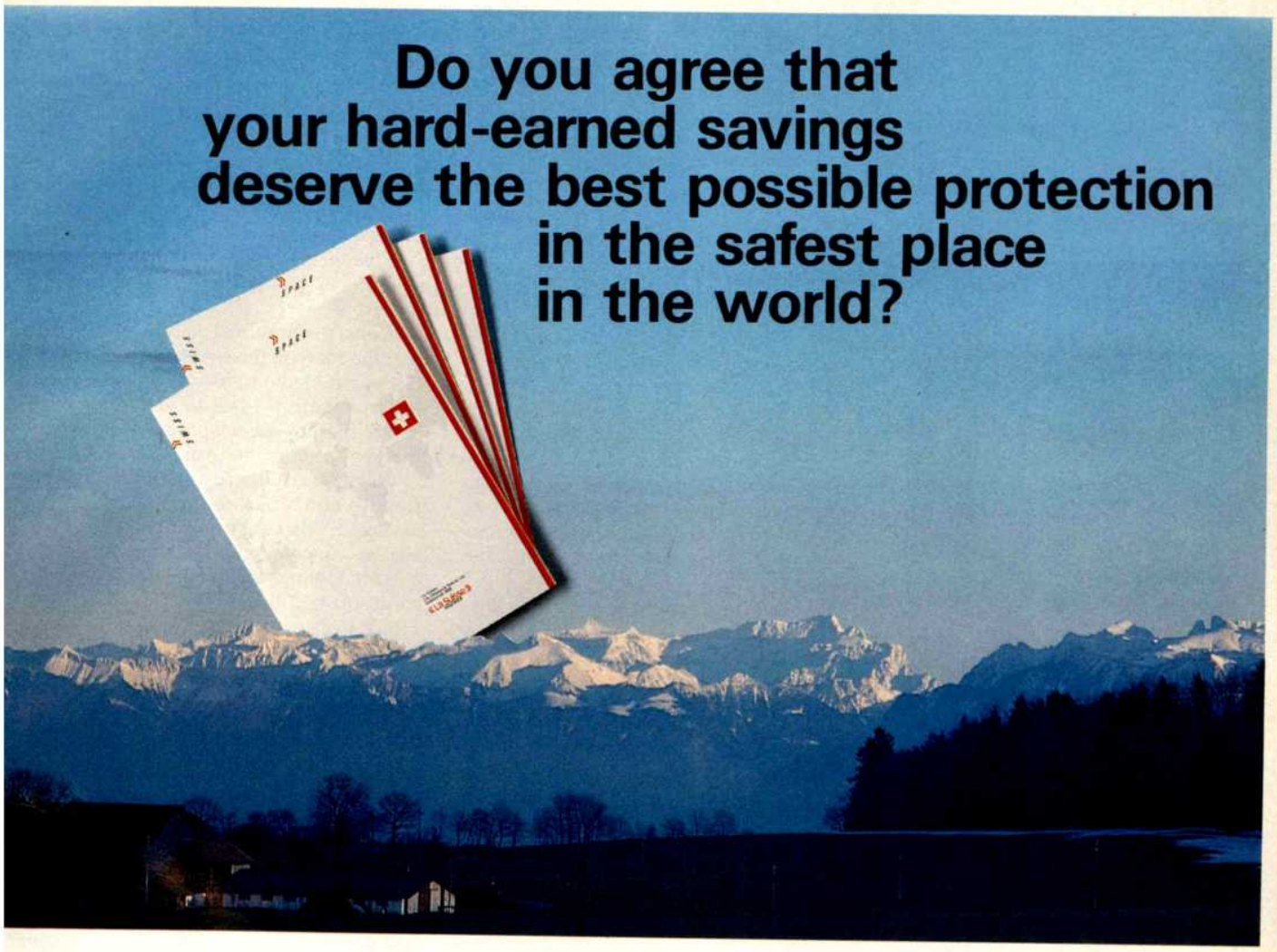
Brown: Lots. We still like the electronics sector, although it's a little bit overheld. But we like companies like **IC Packaging** and **Siliconware**. In the textile sector: **Far Eastern Textile**. Others include **Cheng Loong Paper** and **Tung Ho Steel**.

Kaye: One thing you have to worry about in Taiwan is it seems like everybody and his brother is doubling his capacity to produce semiconductors. We're going to have a train wreck there in about two years. It's not just happening in Taiwan; it's happening in a lot of countries. My guess is at some point, probably in late 1995, semiconductor demand is likely to peak.

Lee: Basically, we're looking at Taiwan as a very defensive play, especially in the first half. However, in terms of earnings per share, Korea is still higher than Taiwan. And the other thing is that for foreigners, it's not that easy to get in anyway.

Brown: There's one interesting opportunity, and we call it the Indian GDR effect. Basically, share prices there have been dragged down enormously and discounts have widened a lot. And that's been reflected in the whole of the offshore convertible bond and GDR market. You see discounts in Taiwanese convertibles of above 20%. A lot of good companies in Taiwan have issued convertible bonds in the last three months and are a really good buy — **Cheng Loong**, **Yang Ming Marine**, **United Microelectronics**, **U-Ming Marine**. It's just global investors don't want to hold paper at the moment, so they're selling anything and everything.

Kaye: There are a number of convertible bonds both in Malaysia and Thailand



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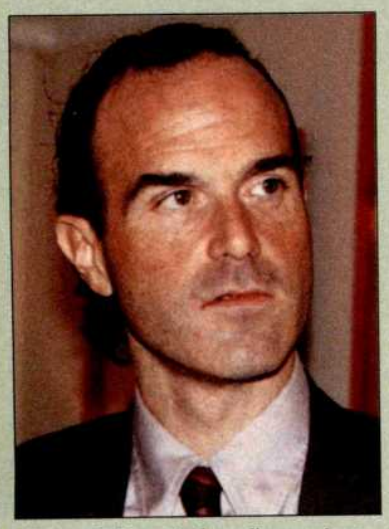


MARK CLIFFORD

William S. Kaye is founding partner of the Pacific Alliance Group. He has an MBA from the University of Chicago and has worked at Goldman Sachs and PaineWebber. He manages the Asian Hedge Fund.

that are cheap if you can get comfortable with the credit. We like the **Aokam Perdana** convertible bond, even though the equity story isn't that great because plywood can't get out of its own way at the moment. We also like the **Land & General** and **United Engineers (Malaysia)** convertible bonds. In Thailand, we own the **Sino-Thai Engineering** and **MDX** convertible bonds. The common theme is very attractive yields to put or yields to maturity, with equity upside thrown in for zero.

Review: If you're optimistic about Japan, are you pessimistic about Southeast Asia?

Tran: It's a reason for caution. Many of the UK funds are still overweight in Southeast Asia. They were caught, for example, in Malaysian speculatives. They must be reassessing that position, but are probably coming to the conclusion that it's too late to switch into Japan. The most likely consequence is that it's going to limit the ability of Southeast Asian markets to rally.

Brown: There are also many Japanese institutions who've been raising money for the past few months to invest overseas once they've seen that the yen has turned. Now, it does look like the yen might have bottomed. And you could see a flood of money offshore. I'm not saying it's necessarily going to come into Hong Kong or Southeast Asia. But there is money waiting on the sidelines.

Review: There seems to be one market that everyone is nervous about, and that's Hong Kong.

Lee: Our main concern is downward revisions in earnings. We also expect downward revisions on net asset values of property developers. If the NAVs get revised down, then the deep discount that people talk about will shrink automatically.

Ebsworth: We're still concerned about underlying property prices. Even shrewd investors are sitting on property they can't unload. Others misappropriated corporate funds to buy and hold properties a few months, hoping to flip them back to their employer at a profit. Insurers are bracing for a sharp upswing in employee fraud claims. Also, we're seeing a fall-off in retail activity — apparel, restaurants and movies — exactly what happened at Japan's property peak, when people need to use more of every pay cheque to service rising mortgage payments.

Review: But you have lots of money in your Southeast Asian fund in Hong Kong.

Ebsworth: Earlier this year, our overweight position hurt performance, but by mid-year we were near neutral. Now, we see bargains developing in oversold blue chips like **Hongkong Electric**, **Cepa**, **Hopewell** and even **Hongkong & China Gas**.

Lee: How much downside do you see in [Hong Kong's] physical property market?

Ebsworth: Difficult to say, but on a net usable space basis, Hong Kong doesn't deserve its current 200% premium to places like London, Geneva and New York.

Kaye: The question is whether it's in the price. We've covered our property shorts in Hong Kong. We are short property in Singapore. The Hong Kong property stocks across the board reflect a 30-50% further decline in prices. Look at **Henderson Land**. Look at **Cheung Kong** at HK$31. I'm happy to own Cheung Kong at HK$31. I'm not paying anything for mass residential property. If you buy mass residential property for zero, it's a pretty good deal.

MARK CLIFFORD

Diahann Brown, a graduate of Cambridge University, joined Thornton Management (Asia) in 1992. She previously worked for five years at Robert Fleming. Her main fund responsibilities include Thornton's Tiger and Taiwan funds.

Ebsworth: I agree with you on the stocks. I'm just concerned people don't realize —

Kaye: — how bad it can get. I agree that the man on the street may not realize it. People in the industry may not come to grips with it. I talk to them too, and I just think they are in space. But the stockmarket has come to grips with it.

Review: Are there any buying opportunities now in the sector?

Lee: I don't seen any. Another thing we are concerned about is interest rates. We are looking for the federal funds rate to go up to 7% or 7.5% That would put Hong Kong mortgage rates up to about 12%. And they may stay 12% for some time. In early 1994, a lot of property consultants were saying 12% would eat into people's mortgage capabilities. That will make it difficult for the physical market to move up — even if it's not crashing.

Ebsworth: What you're saying is that Hong Kong had negative real rates for five years. Since we last met, rates have gone positive, and they'll get a lot more positive before it's over.

Review: Does that mean people should sell the banks, given your expectations for property?

Ebsworth: I think local banks' valuations are vulnerable.

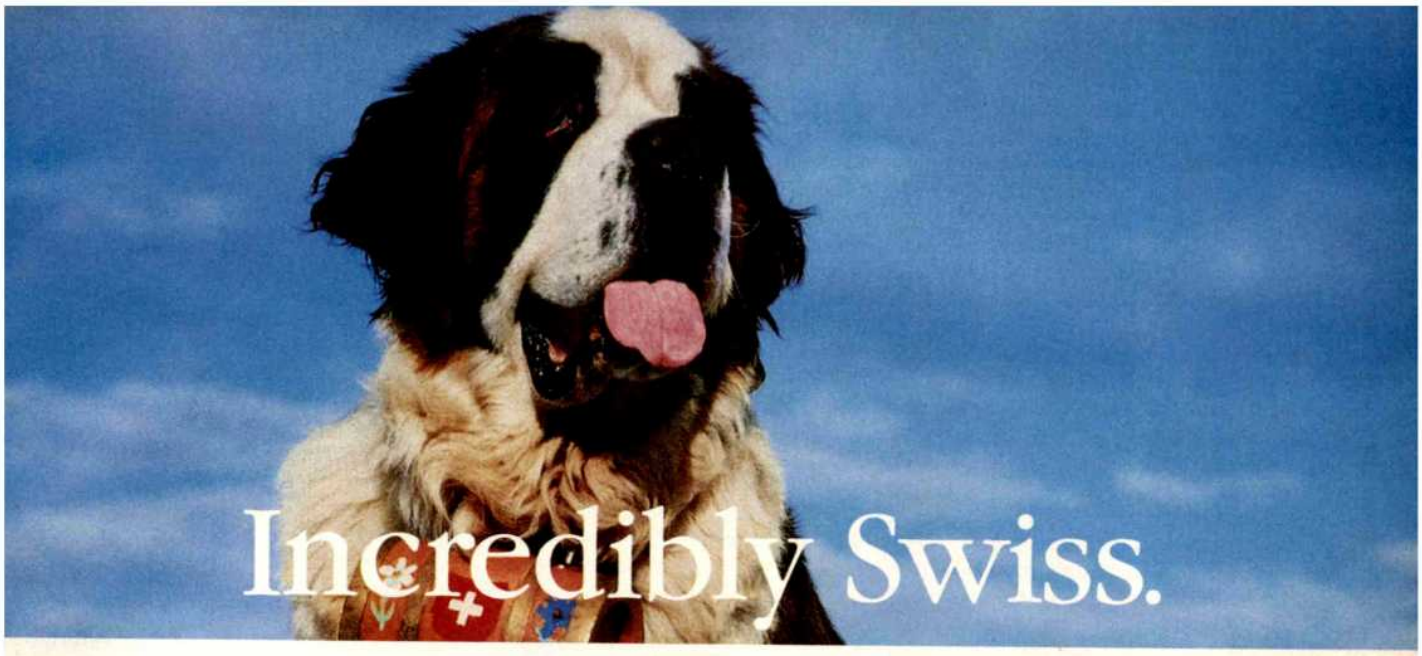
Kaye: Plus you have deregulation in the early stages. The market just won't come to grips with it. There are too many people in the business. It's going to be painful in the transition for the next three or four years. I could see single-digit EPS growth. I could see a massive consolidation in the banking industry just like you are going to have in the brokerage industry.

Review: What about **Bank of East Asia**, which is so exposed to mortgages?

Kaye: It's going to get wiped out. It could easily go to HK$15, from about HK$30 today.

Brown: It's difficult to get away from property exposure, whatever sector you look at. We still like conglomerates like **Hutchison Whampoa** and **Wharf**. We are focusing on companies or sectors that have broadly diversified earnings. The story next year will be earnings downgrades. We are trying to focus on areas where the risk of that happening is the lowest. The utilities are fine as well. At least you know your earnings are reasonably predictable.

Tran: **Hongkong Telecom** is also a very good concept as a beneficiary of a



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change in China's telecoms regulatory structure. It is our is our largest holding. China has to invest in its infrastructure, whether it's power or telecoms, and they need foreign capital. The Chinese are deluding themselves that their domestic market is so big that irrespective of the way they treat foreign investors they are going to continue to be the recipients of massive foreign direct investment. Sometime in 1995, they are going to realize they will need to be more flexible.

Lee: The other thing we are looking at very seriously are H shares like **Harbin Power**. **Dongfang Electric** is trading at 13.5 times. Harbin is at 12 times. Harbin makes power-generation equipment. There will be constant demand for products produced by these companies.

Kaye: The problem with these H shares is management is usually awful and in most cases you are buying a sorry company. You are still buying the China concept, not the business reality. I want to invest in the turbines that will be necessary for power generation in China. But everyone and his son-in-law wants to do that. Harbin and Dongfang are not Asea Brown Boveri, though they represent two of the better H shares. I wouldn't necessarily be shorting them. But there are some terrible companies out there.

Review: What about Malaysia?

Ebsworth: Malaysia has lagged the U.S. and Asia in raising rates. Now they're set to go up at a time when equity valuations are still expensive and therefore vulnerable.

Brown: Inflation is beginning to pick up and we're looking at less-stable politics. But I think, most importantly, the valuation of the market is high. The two main stocks in the utility sector, **Telekom Malaysia** and **Tenaga Nasional**, will suffer from an erosion of their monopoly position. Finally, one thing that bothers me in the short term: If you look at the speculative lending to local investors, it is still sizable. I would be cautious about forced selling. But there are still some pretty good companies — **Land & General** and **Leader Universal** — that have real businesses and are making money.

Tran: Because we think oil prices are going to edge up next year, Malaysia and Indonesia would be the better Southeast Asian markets. But Malaysia will have to adjust to higher domestic rates soon and there are few cheap stocks. In addition, we don't like telecoms or power sectors because the regulatory environment is so uncertain and competition is intensifying.

Lee: I wouldn't say we're in a rush to get back into Malaysia, but there are some stocks that are oversold. In the gaming sector, we are comfortable with **Genting**. They have been gradually increasing space for their casino without making it public.

Ebsworth: In an otherwise scary market, our team likes **United Engineers (Malaysia)**. **Malaysia Airlines** looks like an interesting turnaround. In Indonesia, **Sampoerna**, **Gudang Garam**, **Astra** and **Indosat** are all oversold, with still-decent fundamentals.

Kaye: The risk-reward in Indonesia is a lot better than in a lot of places. The problem is there is still this pipeline of paper that at the first bounce is going to come out. The market can lift its head if conditions are right, but it can't go very far before the pipeline comes out again.

Ebsworth: It's not just Indonesia. There's what technicians call "upside supply" across the region — massive deferred equity deals and debt deals waiting for any rally.

GERHARD JORENS/REVIEW

William Ebsworth joined Fidelity after earning his MBA at the Wharton School in 1984. He worked in the firm's Boston and Tokyo offices as an analyst and fund manager before moving to Hong Kong in 1990.

Review: How about Singapore as a defensive play?

Kaye: I think it's extremely vulnerable. We are short **Keppel**, **Fraser & Neave**, **Straits Steamship**, **City Developments**. The common theme is that all those companies are property stories. Singapore property — Grade A office and residential — is now more expensive in the marketplace than Hong Kong property is in the marketplace. It's the most expensive property anywhere in the world.

Lee: We are cautious about property, more on the residential side than the commercial. But Singapore is probably the only country that we are forecasting a possible acceleration of earnings — more because of the shipyards.

Brown: I would agree that the residential property sector has moved up quite sharply. And I would be cautious.

Kaye: Plus the currency has moved up.

Brown: We're forecasting further currency gains in 1995 of up to 10%.

Kaye: We own the currency but not the stocks.

Brown: We are quite positive on that basis. Also, I think the banking sector looks pretty attractive. There's still a lot of momentum in the economy. And the banks' PE ratios have really come down. The ones I particularly like are **OCBC** and **UOB**.

Ebsworth: Singaporean banks apparently avoided lending to Malaysian speculator syndicates that have been hammered in the correction. The exposure seems to be worst among Singapore-based European banks. Among Singaporean banks, we like **OUB** and **UOB**, as well as consumer companies like **Berger International**, a paint maker, and **British American Tobacco**.

Review: Are any of you relatively bullish on the Philippines or Thailand?

Ebsworth: Philippine stocks are expensive. In Thailand, we've wound down sector bets in, for instance, the financials, in favour of a range of stocks including some cement producers, fundamentally attractive telecoms and special situations like discount retailer **Siam Makro**.

Kaye: But you can buy the country funds at a 25% discount. That's what we are doing and shorting the big-cap stocks. We think the **SCB Munkhong** country fund, sponsored by **Siam Commercial Bank**, is particularly attractive.

Review: If you're short, why would you buy these country funds?

Kaye: No. 1, some of these country funds are going to open up in an 18 months-to-two-year time frame. No. 2, they do outperform the index for very good reasons: a, they're local; b, they're usually connected with someone like Bangkok Bank or Siam Commercial Bank; c, they can get the hot IPOs that you can't get your hands on.

Review: Bill, you also were bullish about New Zealand.

Kaye: The Kiwi dollar is our largest currency position. They have wonderful monetary-policy settings there. Above 2% core inflation, the central-bank governor can be removed without receiving his normal bonus. So he has a pretty strong incentive to do his job. When you give a central-bank governor only one thing to do, he can normally do it. The world is starting to see the currency as a proxy, if not a superior substitute, for gold that pays a 10% return on the short end. This could be the emerging Swiss franc of Asia. I think it will take on a premium; in fact, it's already beginning to happen. It's about 64 cents to the U.S. dollar now, versus about 50 cents less than two years ago. ■

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Bond	International Finance Corp.	HK$ 750 million	Joint Lead Manager/Bookrunner
Bond	Asian Development Bank	HK$ 1 billion	Co-Lead Manager
FRN	Krung Thai Bank	US$ 150 million	Arranger/Lead Manager
Term loan	The People's Republic of China	US$ 28 million	Arranger
Term loan	Government of Malaysia	Yen 24 billion	Arranger
Term loan	Bank Negara Indonesia	US$ 65 million	Arranger/Lead Manager
Term loan	CITIC	US$ 45 million	Lead Manager
Term loan	Electricity Generating Authority of Thailand	Yen 6.5 billion	Arranger
Term loan	Sun Hung Kai Properties	HK$ 1.05 billion	Arranger/Lead Manager
Aircraft lease	Korean Air	US$ 218 million	Arranger/Lead Manager
Dual currency multi-option	Modern Terminals	HK$ 2 billion	Arranger/Lead Manager

China

In China, Sanwa has built one of the largest networks of branches, representative offices and affiliates

among foreign banks, covering the country's key cities such as Shanghai, Beijing, Guangzhou, Tianjin and Dalian, as well as Shenzhen, the thriving special economic zone.

Sanwa is a gateway for inward investment in China. It also actively helps foreign and local corporations in trade transactions. Its affiliates — China Universal Leasing Co., Ltd. in Beijing and Shanghai International Finance Company Limited in Shanghai — complement Sanwa's multifaceted financial services in the country.

Singapore

In Singapore, Sanwa runs a branch as well as Sanwa Singapore Limited, an investment banking unit, and Sanwa Futures (Singapore) PTE Limited. In the region that forms ASEAN, the branch provides a wide range of services to governments and leading conglomerates — especially in the offshore financial sectors of Indonesia and Malaysia. Sanwa has also provided aircraft financing for the national flag carriers of Malaysia and Singapore, and played a significant role in syndications for infrastructure and plant construction.

Other Asian markets

Sanwa also has a variety of commercial and investment banking units catering to both the wholesale and retail sectors of other parts of Asia.

Sanwa is particularly committed to Indonesia and Thailand. Sanwa offers a full range of financial services, including local and foreign currency lending and leasing, through Sanwa Indonesia Bank, Sanwa-BRI Finance, Inter-Pacific Bank and Inter-Pacific Securities in Jakarta, as well as the Bangkok International Banking Facility, Siam Sanwa Industrial Credit, Siam Sanwa Trilease and Siam Sanwa International in Bangkok.

In Malaysia, Sanwa is closely cooperating with leading local institutions such as Bank of Commerce and Commerce International Merchant Bankers, responding to the banking or capital market needs of its clients.

With an extensive network throughout Asia, Sanwa always offers highly competent services.

The Sanwa Bank Asia/Oceania Network

Hong Kong	Hong Kong Branch
	Sanwa International Finance Limited
	Sanwa-DSP Credit Limited
	Sanwa Financial Products Co., L.P. Hong Kong Branch
China	Shenzhen Branch
	Shanghai Branch
	Dalian Branch
	Beijing Representative Office
	Tianjin Representative Office
	Guangzhou Representative Office
	China Universal Leasing Co., Ltd.
	Shanghai International Finance Company Limited
Korea	Seoul Branch
	Korea Development Leasing Corporation
Singapore	Singapore Branch
	Sanwa Singapore Limited
	Sanwa Futures (Singapore) PTE Limited
Malaysia	Labuan Branch
	Kuala Lumpur Representative Office
	Commerce International Merchant Bankers Berhad
	Bank of Commerce (M) Berhad
Thailand	Bangkok International Banking Facility
	The Siam Sanwa Industrial Credit Public Co., Ltd.
	The Siam Sanwa Trilease Co., Ltd.
	Siam Sanwa International Co., Ltd.
Viet Nam	Ho Chi Minh City Representative Office
Indonesia	Jakarta Representative Office
	P.T. Sanwa Indonesia Bank
	P.T. Sanwa-BRI Finance
	P.T. Inter-Pacific Bank
	P.T. Inter-Pacific Securities
The Philippines	Rizal Commercial Banking Corporation
India	New Delhi Branch
Australia	Sydney Representative Office
	Melbourne Representative Office
	Sanwa Australia Limited
	Sanwa Australia Finance Limited
Japan	Head Office
	Tokyo Headquarters
	Nationwide Network over 1,000

Sanwa Bank

Sanwa bankers are working for you everywhere.

Allocating Assets

Three fund managers revise their portfolios

We have asked three Hong Kong fund managers to update the portfolios they proposed three months ago. As before, they are making recommendations for two imaginary investors, both based in Asia. Their portfolios are valued in U.S. dollars.

Elisabeth Scott: The past three months have been difficult for equity investors worldwide. The close relationship between U.S. interest rates and Hong Kong and Asean markets led to sharp declines in share prices as U.S. rates were increased for the sixth time in 1994.

We have increased the exposure of both investors to bonds. This reflects our view that U.S. rates will peak in the first half of 1995, as the Federal Reserve Board perceives that the economy is slowing and that U.S. inflation remains muted. We favour **U.S. Treasuries**, expecting the dollar to strengthen against the yen and European currencies.

Hong Kong, with its large property exposure, has proved to be the most sensitive of the Asian markets to U.S. rate rises. We expect further weakening in the property market, although property stocks are trading at discounts to asset values, reflecting a good portion of the forecast decline. We expect to commit cash to the market once U.S. short rates peak. We favour conglomerates, such as **Citic Pacific**, and hotels, such as **Mandarin Oriental**.

We have reduced our exposure to the other Asian markets, particularly Singapore and Malaysia. Both countries are selling at steep price-earnings ratios and we expect further interest-rate rises in early 1995. We favour Taiwan and South Korea, for their cyclical recoveries and their lack of connection with the U.S. rate cycle. In South Korea, many global depositary receipts have given up their premiums and we would focus on these, such as **Kepco**, the electric utility.

We have reduced weightings in the larger markets slightly. While we believe a slowdown will occur in the United States, a moderate pickup will be evident in Europe and Japan. As a result, we favour cyclicals such as **General Electric** (U.S. electric equipment), **SKF** (Swedish ball-bearing maker), and **Nittetsu Mining** (Japanese limestone producer).

Margrit Williams: Little has changed in world equity markets since the last quarter. Interest rates look set to rise further in early 1995, but most investors are confident in the Federal Reserve's ability to be "ahead of the curve" and control inflationary trends. With a lead time of 12-18 months for U.S. rate rises to take effect, we should soon start seeing the real impact of last February's initial moves.

The bond markets have stabilized as a result of this perceived control over inflation and we are increasing our weightings for both portfolios. The yield curves are flattening and medium-term bonds are becoming as attractive as those at the short end. We would recommend principally **U.S. Treasury Bonds**, as we expect a strengthening U.S. dollar and seek to reduce currency risk.

While now recommending some weighting in bonds, we still believe that equities will outperform bonds this year and that selected Asian markets will be the best performers. Furthermore, the year-end volatility in Latin America should be positive for Asian markets.

The U.S. equity market still offers stable, but unspectacular, gains within a framework of sustainable economic growth and healthy corporate profits.

We are moderately positive about Europe, which has a controlled inflationary environment and sustainable growth levels.

Japan remains in much the same state as last quarter: Recovery continues but there is little interest in the equity market from domestic investors. We see no reason to add to our weightings. Hong Kong, likewise, looks less than inspiring, although it may hit levels that prompt buying interest. This may happen during the next quarter, although the time is not yet right.

For the moment, therefore, we see better opportunities in other Asian markets. First-quarter gains are possible in Taiwan, South Korea, Indonesia and Thailand.

V-Nee Yeh: The last three months have been even more difficult than the third quarter. Portfolios for Investor A and I added gains of 0.7% and 0.5% and are up 0.97% through late December. Since inception, the gains have been 64.1% and 62.8%.

Our bond portfolio eked out gains of 0.6% and 1.0%. Our **Brazilian Brady Bonds** and **Venezuelan Debt Conversion Bonds** have been steady in price, with yields to maturity of 14% and 26%. We believe the less-developed-country market should rally substantially — much like the junk-bond rally in 1992 after that market's debacle in 1990-91. Prices for South African **Escom** bonds have stabilized, with the portfolio gaining from rand strength. Half the position is sold with proceeds reinvested in Thai convertibles.

Our portfolio of Hong Kong equities lost 2.2% and 1.6%, but we are convinced the recent downturn is symptomatic of a market bottom. The privatization offer for **Novel Enterprises**, (5.0% and 3.6% of our portfolios) caused the price to appreciate 28.4% and validates our view that export-oriented industrial shares are significantly undervalued. **IDT** and **Fountain Set** reported the highest earnings growth since their flotations in the 1980s but are trading at four times earnings. If coming earnings growth fails to boost the share price, we believe shareholder value will be realized through corporate restructuring. We see no reason to change our shareholding in **QPL**, IDT and Fountain Set. For Novel, we intend to tender our shares.

Strong import growth and accelerating wages in South Korea suggest substantial monetary tightening soon. All South Korean shares are sold (losses of 0.9% and 0.4%) and reinvested in Eurodollar convertibles of **Bangkok Land** and **Tanayong** at prices of 69% and 61%. Though the conversion premium is high, the yield to maturity/put of 20%-plus gives an equity-like return. Default is highly unlikely. We remain bullish on long-dated **Australian dollar zeros**. The interest-rate cycle is probably close to peaking globally with flattening yield curves. With a 26-year zero, the potential gain will rival equities.

Our holdings of **Vietnam**, **North Korean** and **Cuban debt** remain unchanged. Vietnam is down marginally (4.5%) but North Korea has appreciated 38.9% with Cuba unchanged. Prices are 64%, 25% and 20% of face value. The North Korea scenario so far has been satisfactory with the nuclear deal. Cuba's prospects are favourable as public opinion in the U.S. grows for lifting the embargo. ■

Investor A: a 30-year-old man, unmarried, earning the equivalent of $50,000 a year. He has net assets of $250,000 and a pool of $100,000 to invest. He is prepared to take fairly high risks to achieve capital growth.

Investor B: a 45-year-old father of two, earning $150,000 a year, with net assets of $1 million and pool of $500,000 to invest. He prefers to avoid taking high risks to see his capital grow.

Numbers in brackets refer to weightings three months ago

REVIEW GRAPHIC/RAY LEUNG

Schroders

Elisabeth Scott is a graduate of Edinburgh University and is now a manager with Schroders Asia in Hong Kong. The Schroders Group manages portfolios of $75 billion worldwide.

	%			
	Investor A		*Investor B*	
Cash	5	(0)	5	(0)
Bonds	30	(10)	40	(35)
Equities				
North America	10	(13)	10	(11)
Europe	10	(9)	10	(8)
Japan	10	(13)	10	(11)
Hong Kong	15	(20)	10	(10)
Asean, South Korea/Taiwan, Australasia	20	(35)	15	(25)
TOTAL	100		100	

Jardine Fleming

Margrit Williams, a graduate of London University, is the head of the investment team providing research and strategy for Jardine Fleming's Private Investments department. Jardine Fleming's funds under management exceed $23 billion.

	%			
	Investor A		*Investor B*	
Cash	5	(15)	5	(35)
Bonds	15	(0)	30	(0)
Equities				
North America	7.5	(7.5)	10	(10)
Europe	12.5	(12.5)	12.5	(12.5)
Japan	10	(10)	7.5	(7.5)
Hong Kong	7.5	(7.5)	5	(5)
Asean, South Korea/Taiwan, Australasia	42.5	(47.5)	30	(30)
TOTAL	100		100	

Value Partners

V-Nee Yeh is executive director of Value Partners, a fund-management firm concentrating on small, listed companies in Asia. A graduate of Columbia Law School, Yeh spent six years with the Lazard Houses. He resigned as a partner of Lazard Brothers Capital Markets in London upon returning to Hong Kong in 1990.

	%			
	Investor A		*Investor B*	
Cash	0	(0)	0	(0)
Bonds*	21	(25)	43.5	(50)
Equities				
North America**	5	(5)	5	(5)
Europe/Japan	0	(0)	0	(0)
Hong Kong	35	(35)	25	(25)
Asean***	24	(8)	17.5	(5)
South Korea****/Taiwan	8	(20)	4	(10)
Australasia	7	(7)	5	(5)
TOTAL	100		100	

*Includes Venezuelan and Brazilian Brady bonds
**Represented by Cuban debt
***Includes Vietnam debt, Thai convertibles
****Includes North Korea debt

Is Oman an Omen?

By Gary Silverman

When Templeton's Mark Mobius began his first emerging-markets fund eight years ago, the term "emerging markets" was something of a euphemism for Southeast Asia. The fund invested in only six markets, and five were in the region — Hong Kong, Thailand, Malaysia, Singapore and the Philippines — with Mexico thrown in for Latin-American flavour.

Now, Templeton funds target some three dozen emerging markets and the company has bought the peripatetic Mobius a private jet so he can not only monitor existing bourses, but prospective ones. "I just got a letter the other day to do something in Madagascar," Mobius says with a trace of amusement. "We are constantly moving around."

He isn't the only one. Foreign investors in emerging stockmarkets — usually defined as countries where annual average per capita income is less than $8,350 — ventured farther afield than ever in 1994. While scaling back positions in the relatively familiar bourses of Southeast Asia and Latin America, foreign investors put more money into such far-flung and illiquid markets as Russia, Oman, Jamaica, Morocco and Zimbabwe, according to Baring Securities in London.

Is this bad for Southeast Asian markets? Not necessarily. Share prices in the region tumbled in 1994 as interest rates in the United States rose. Investors naturally turned to markets — not only emerging ones — that were less sensitive to U.S. rates. That process is reversible. And longer-term trends, such as growth in intra-regional trade, increasing foreign-direct investment and continuing expansion in China, promise gains.

But the taste for new emerging markets does have its disturbing aspects. Many fund managers looking for big returns — the kind Southeast Asia once delivered — are looking elsewhere. Their objective is to find younger versions of Southeast Asia: countries pursuing pro-business policies, but in an earlier stage of implementation.

"They [Asians] should take a lot of credit for pioneering changes other Third-World countries are making," says Arnab Banerji, chief investment officer at Foreign & Colonial Emerging Markets in London. "People are following the prescription. There is a racism that people think only Asians can do this. You can do it in Ghana as much as in China, and I've seen it in both places."

Overall, net equity flows to emerging markets fell to an estimated $40 billion in 1994 from a peak of $62.4 billion in 1993, says Baring analyst Angela Cozzini in London. The Pacific Rim — mainly Hong Kong and other Southeast Asian markets — saw its total plummet to $15 billion from $40 billion. Flows to Latin America also slipped to $15 billion in 1994, from $20 billion the previous year.

But flows to what Baring calls "other" markets — southern and eastern Europe, the Middle East, Africa and the Caribbean — jumped to $10 billion in 1994, from $2.2 billion the year before, Cozzini says. And this embrace of the "other" could continue. Banerji, for example, predicts 1995's best markets will be Egypt and Russia, rising 100% and up to 200%, respectively.

"Asia is great, but we are putting money into Egypt and Russia because the return is higher," he says. In Egypt, Banerji says the government is privatizing hundreds of businesses, and capital is returning to a market that was the world's fifth most active until nationalizations in the 1950s. Russia's attraction is privatization on the cheap.

To be sure, fund managers like Banerji aren't abandoning Southeast Asia. In fact, he's putting more money in to get ready for a "very strong bounce" after U.S. rates peak. But their current favourite punts in many cases are in other regions. Baring's latest global strategy report recommends Russia and Turkey. At Lloyd George Management in Hong Kong, Directo Scobie Ward says the emphasis will b on small- and medium-sized companie in India.

Many fund managers also expect t find better value in 1995 in Latin Americ where price-earnings ratios are generall lower than in Southeast Asia. But Mex co's devaluation of the peso in late De cember called that into question, sendin share prices skidding across the regio and costing foreign investors billions.

"It put a pall over Latin America," say Terence Mahony, chief investment office for global emerging markets at HSB Asset Management, who reduced hi Mexico weighting in favour of Brazil an cash. "It may favour Asian markets, bu it may put a pall over all emerging ma kets."

Not everyone is put off, though. Lloy George's Ward says he now finds "te rific value" in Latin America. The con pany's U.S. strategic partner, Eaton-Vanc launched an emerging-markets fund i November, and Ward says it began buy ing in Latin America as share price wilted. "We view the recent upsets as buying opportunity," he says.

Nonetheless, Mahony says, Mexic "brought alive the risk in emergin markets." And even an emerging-marke pioneer like Mobius (Templeton has gor so far as to buy advertisements in Hor Kong calling him the Indiana Jones fund managers) says he's worried th investors are expecting too much, too soc from new markets and riskier dire investments.

"We are getting into more dangerou territory," Mobius says. "For a lot of pe ple who expected quick returns, we a at the end."

And if Indiana Jones is worried, what an average investor to do?

What the Fund Tables Say

The best-performing offshore unit trusts or mutual funds are listed on the following pages. The tables show the total percentage return — that is, the capital gain plus the dividend or interest reinvested — achieved by the funds over the past three months, twelve months, three years and five years.

Two columns on the far right of the tables indicate the risk involved in holding individual funds. The first shows their volatility against the average performance of funds in their category. The volatility is represented by the numbers one to four: the higher the number, the higher the risk. The figures are based on the standard deviation of each fund on a monthly basis over a three-year period.

The second, and final, column shows the reward (as measured by the average monthly return over the previous three years) of each fund relative to the degree of volatility. The higher the ratio, the higher the return relative to the risk.

The statistics were provided by Millisis Financial Systems, the sole agent in Hong Kong for Micropal, which tracks the performance of 20,000 funds on a daily basis. Millisis can be contacted by telephone on (852) 2882-1701 or by fax on (852) 2882-1727. ■

ar East Equities (including Japan)

	Return									
	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/
	%	Rank	%	Rank	%	Rank	%	Rank		Risk
Regent Pacific Hedge	-0.63	1	25.11	1	—	—	—	—	—	—
Hill Samuel Far Eastern Eqty	-7.96	14	24.35	2	54.03	25	—	—	3	10.0
TSB OIF Far Eastern	-8.38	16	20.62	3	132.90	4	—	—	2	26.5
GAM Orient	-7.03	7	19.40	4	64.37	18	—	—	1	14.1
Sogelux Fd M Pac Bas Eqty	-7.20	10	19.37	5	34.01	48	21.82	29	2	6.8
Allied Dunbar Far East	-9.48	27	18.59	6	97.47	9	86.79	6	3	18.1
Allied Dunbar IB Far East	-9.13	21	18.11	7	—	—	—	—	—	—
Von Ernst Crossbow Far East	-8.09	15	16.74	8	53.10	27	36.28	25	3	9.5
GAM Pacific	-7.89	13	16.41	9	60.12	21	73.49	9	1	16.1
Royal Life/Gart Pacific	-3.43	2	15.28	10	90.14	10	79.50	8	2	18.3
Perpetual Offshr Far East Gth	-9.47	26	15.24	11	119.41	6	81.20	7	1	25.3
Guinness Fl GSF Jap & Pacific	-7.55	12	14.95	12	68.55	17	52.26	19	2	14.0
RG Pacific	-9.45	24	14.54	13	51.09	29	—	—	1	11.0
Swiss Life Proteus Pacific	-9.50	28	14.37	14	39.30	42	—	—	3	6.4
AXA Eqty&Law IFM F East Eqty	-8.64	19	13.34	15	34.56	47	13.49	32	1	7.5
Sector Average (total number)	-12.22	(79)	1.05	(74)	57.81	(60)	47.22	(43)	—	—
MSCI Comb Far East Index	-6.55	—	15.82	—	23.54	—	-15.28	—	—	—

'ar East Equities (excluding Japan)

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/
	%	Rank	%	Rank	%	Rank	%	Rank		Risk
Global Atic Inc	-2.51	3	12.79	1	—	—	—	—	—	—
Prolific IF Asia Pacific	-11.72	24	10.86	2	—	—	—	—	—	—
Singer & Fried Tai Pan	-11.37	19	10.27	3	—	—	—	—	—	—
Indosuez Asian Growth	-15.03	67	9.65	4	123.75	9	115.68	13	4	16.2
Indosuez Pacific Gold	-10.06	11	9.09	5	54.35	64	45.07	44	3	7.5
Coutts GF Pacific Basin Eqty	-10.85	13	8.49	6	—	—	—	—	—	—
Von Ernst GP Pacific Bas Eqty	-11.92	26	8.04	7	58.75	62	47.80	42	1	11.6
Aetna (FE) Asia Trust	-10.97	14	8.00	8	186.68	2	247.43	1	4	23.6
JF Asia Select Limited	-5.75	4	6.49	9	57.69	63	—	—	1	12.9
Worldsec Dynasty	-15.70	81	5.91	10	—	—	—	—	—	—
Skandifond Far East	-14.23	56	5.65	11	106.29	16	144.50	8	2	16.8
Govett GSIL Far East Equity	-11.22	17	5.31	12	123.82	8	119.82	10	1	21.4
Carlson Far East	-12.49	32	5.28	13	78.54	46	—	—	1	13.7
Capital Hse IGF Sing Ind-Malay	-10.98	15	4.71	14	116.63	12	—	—	2	18.4
Henderson HF Pacific	-13.91	51	4.27	15	139.06	5	169.00	5	3	19.3
Sector Average (total number)	-14.15	(111)	-3.92	(102)	88.17	(71)	99.05	(47)	—	—
MSCI Comb Far East Index (exc. Japan)	-11.29	—	11.86	—	80.55	—	41.51	—	—	—

Japan Equities

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/
	%	Rank	%	Rank	%	Rank	%	Rank		Risk
JF Japan Technology	-9.23	77	43.88	1	41.29	5	1.65	21	4	4.4
JF Japan OTC	-12.61	107	30.21	2	109.06	1	—	—	4	11.3
JF Fledgeling Japan Limited	-10.32	84	29.28	3	9.90	47	13.84	9	4	1.1
NICAM Japan Return Reversal	-6.91	36	28.95	4	—	—	—	—	—	—
Gartmore CSF Japan	-7.07	40	28.52	5	47.29	2	13.14	10	3	6.7
Schroder Japan	-3.60	4	28.50	6	35.69	6	6.51	15	1	5.8
Guinness Fl GSF Japan Sm Cos	-9.64	79	26.80	7	29.81	11	—	—	3	4.0
Midland ICF Japanese Opps	-6.66	29	26.07	8	25.13	17	—	—	4	3.3
Gartmore IF Japan	-7.19	43	25.24	9	29.88	10	—	—	4	3.9
Henderson HF Japanese	-6.71	32	25.22	10	27.73	13	-11.67	34	—	—
Hypo F&C RAF Japanese Eq	-5.86	19	25.13	11	0.24	78	-35.67	64	4	0.0
Indosuez Japan	-7.25	44	23.81	12	25.53	16	16.32	6	2	4.0
CMI Insur Japan Tracker	-4.34	7	23.41	13	6.07	58	—	—	4	0.7
Henderson HF Japanese Sm Cos	-8.61	67	23.05	14	34.28	7	66.02	4	—	—
CMI Core Japan	-4.30	6	23.01	15	5.15	61	-31.60	62	4	0.7
Sector Average (total number)	-8.98	(123)	12.82	(117)	11.02	(96)	-5.98	(69)	—	—
MSCI Japan Index	-4.26	—	21.35	—	20.06	—	-18.79	—	—	—

South Korea Equities

	Return									
	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/ Risk
	%	Rank	%	Rank	%	Rank	%	Rank		
Jupiter Tyndall GF Korea Vis	-9.86	15	39.41	1	—	—	—	—	—	—
Bordier Korea	4.12	1	39.16	2	30.38	6	-16.78	4	3	5.2
Baring Korea	-5.24	13	35.43	3	21.75	9	-50.54	6	4	2.8
JF Korea	3.17	2	26.46	4	—	—	—	—	—	—
Citizen Korea 1990	-0.02	6	23.49	5	33.38	4	—	—	—	—
Korea Trust	0.77	5	23.44	6	34.37	3	-8.84	2	3	5.9
Thornton Korea	-9.90	16	23.01	7	—	—	—	—	—	—
Korea Growth	-0.84	9	21.04	8	35.79	2	-3.67	1	1	7.4
Citizen Seoul Asia Index	-2.22	10	20.22	9	60.07	1	—	—	2	12.2
Indosuez Korea	1.24	4	19.46	10	—	—	—	—	—	—
Sector Average (total number)	-3.90	(18)	18.58	(16)	28.76	(10)	-28.36	(7)	—	—
MSCI Korea Index	-4.37	—	37.69	—	49.84	—	-5.78	—	—	—

Taiwan Equities

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/ Risk
	%	Rank	%	Rank	%	Rank	%	Rank		
INVESCO Taiwan Growth	-4.26	8	67.32	1	71.00	2	—	—	4	8.4
Thornton Taiwan Equity Growth	-0.96	2	64.36	2	76.77	1	—	—	2	10.8
Thornton Taiwan Equity Income	-0.97	3	62.16	3	62.81	3	—	—	1	8.9
Taipei Fund NAV	-3.08	6	57.36	4	58.06	4	-10.56	1	—	—
Formosa Fund	-1.51	4	55.31	5	38.06	7	-17.41	2	—	—
JF Taiwan Trust	-9.52	10	53.75	6	40.64	5	—	—	4	4.8
GT Taiwan	-1.58	5	48.87	7	38.43	6	—	—	3	5.0
Jupiter Tyndall GF Taiwan	-4.59	9	34.33	8	—	—	—	—	—	—
Sector Average (total number)	-2.87	(10)	55.43	(8)	55.11	(7)	-13.99	(2)	—	—
MSCI Taiwan Index	-1.78	—	66.29	—	61.07	—	-17.95	—	—	—

Hong Kong Equities

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/ Risk
	%	Rank	%	Rank	%	Rank	%	Rank		
Value Partners A	-6.30	1	-6.30	1	—	—	—	—	—	—
Guinness Fl GSF Hong Kong	-15.81	2	-6.94	2	115.01	5	—	—	1	14.2
SHK Middle Kingdom	-27.80	27	-7.07	3	74.17	14	124.52	16	4	6.6
Schroders Asia Hong Kong Sm Co	-18.53	8	-8.01	4	—	—	—	—	—	—
Colonial Securities Hong Kong	-20.42	15	-10.30	5	118.72	4	274.60	2	1	16.6
Fidelity Fds Hong Kong & China	-19.10	12	-10.79	6	142.05	1	—	—	2	17.1
Indosuez Hong Kong	-19.04	10	-11.60	7	108.90	7	232.22	4	3	12.1
HSBC GIF Hong Kong Equity	-17.16	3	-11.68	8	110.06	6	205.14	5	4	11.5
Schroders Asia Hong Kong	-20.15	14	-12.36	9	108.18	8	260.63	3	3	11.8
Finistere Hong Kong Life	-20.96	17	-13.04	10	101.18	9	158.55	12	3	11.3
Prov Cap HK Stockmarket	-19.05	11	-14.09	11	87.84	10	194.55	7	2	10.2
Capital Hse IGF H Kong Cap Gth	-17.29	4	-14.15	12	—	—	—	—	—	—
Sector Average (total number)	-20.11	(27)	-16.27	(27)	90.05	(21)	186.26	(17)	—	—

China Equities

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/ Risk
	%	Rank	%	Rank	%	Rank	%	Rank		
EAH Asian	-13.95	2	-3.53	1	127.26	1	—	—	—	—
CL China Growth	-14.49	3	-5.02	2	—	—	—	—	—	—
INVESCO PS Gr China Opps	-19.66	7	-9.63	3	—	—	—	—	—	—
Prolific IF China Opps	-17.42	5	-15.42	4	—	—	—	—	—	—
HSBC GIF Chinese Equity	-21.25	8	-20.58	5	—	—	—	—	—	—
Dao Heng China	-22.97	14	-20.65	6	—	—	—	—	—	—
GT PRC	-21.91	10	-22.81	7	—	—	—	—	—	—
SHK China	-22.16	12	-24.89	8	—	—	—	—	—	—
Nomura SF China	-31.57	17	-25.36	9	—	—	—	—	—	—
Jupiter Tyndall GF China	-22.73	13	-26.09	10	—	—	—	—	—	—
Barclays ASF China (PRC)	-21.96	11	-27.91	11	—	—	—	—	—	—
Thornton New Tiger China	-24.90	15	-29.42	12	—	—	—	—	—	—
Sector Average (total number)	-20.63	(17)	-22.05	(14)	127.26	(1)	—	—	—	—

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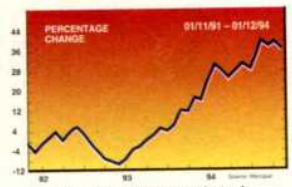

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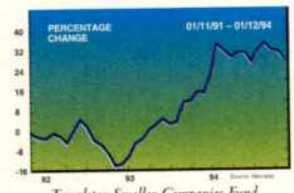

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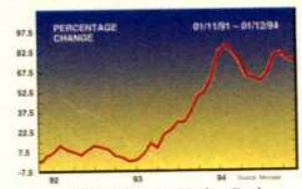

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Asean Equities

	Return									
	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/
	%	Rank	%	Rank	%	Rank	%	Rank		Risk
Thornton SSF ASEAN Growth	-10.30	2	30.80	1	—	—	—	—	—	—
Aetna (FE) ASEAN Development	-10.79	3	22.10	2	255.57	1	—	—	3	34.7
Gartmore IF ASEAN	-12.45	7	7.51	3	169.79	2	—	—	3	22.6
Guinness Fl GSF ASEAN	-11.00	4	5.71	4	116.65	6	—	—	1	20.6
Fidelity Fds ASEAN	-14.59	8	1.06	5	155.36	3	—	—	4	19.9
GAM ASEAN	-12.34	5	-2.61	6	120.17	5	166.40	1	1	20.1
JF ASEAN	-14.63	9	-5.64	7	153.69	4	140.76	2	4	15.3
Lehman Asian Dragon B	-9.30	1	-6.59	8	—	—	—	—	—	—
Sector Average (total number)	-13.16	(12)	3.42	(10)	142.06	(8)	102.50	(4)	—	—

Malaysia Equities

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/
	%	Rank	%	Rank	%	Rank	%	Rank		Risk
Genesis Malaysia Maju	-13.59	1	15.06	1	172.91	3	—	—	2	21.2
Malaysia Equity	-22.57	9	-2.14	2	142.71	6	—	—	1	18.2
MBf Malaysian	-18.22	3	-5.30	3	118.44	8	—	—	1	15.9
Fidelity Fds Malaysia	-20.96	5	-6.86	4	174.95	2	—	—	3	19.9
CIBC-CEF Malaysia	-21.86	8	-9.49	5	64.37	10	34.91	2	4	6.4
Thornton New Tiger Malaysia	-17.79	2	-10.78	6	156.86	4	—	—	4	15.5
JF Malaysia	-23.02	11	-11.19	7	178.22	1	—	—	4	15.8
HSBC GIF Malaysian Equity	-22.86	10	-12.44	8	122.62	7	107.78	1	2	15.1
Barclays ASF Malaysia	-21.50	6	-16.35	9	143.19	5	—	—	3	15.0
Sector Average (total number)	-20.38	(11)	-7.77	(10)	134.76	(10)	71.34	(2)	—	—
MSCI Malaysia Index	-20.19	—	-6.70	—	95.83	—	89.53	—	—	—

Singapore Equities

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/
	%	Rank	%	Rank	%	Rank	%	Rank		Risk
Barclays ASF Singapore	-1.95	3	20.40	1	72.81	4	—	—	4	9.2
CL Singapore Growth	-17.66	8	-0.61	6	180.50	1	249.74	1	1	25.7
Dres Thornton ASF Singapore	-1.69	2	10.21	2	—	—	—	—	—	—
Fidelity Fds Singapore	-3.92	4	7.55	4	101.96	3	—	—	3	13.4
Hansard\Fidelity Singapore	-6.32	6	—	—	—	—	—	—	—	—
HSBC GIF Singaporean Equity	-6.05	5	7.51	5	70.02	5	91.86	2	2	9.7
Singapore Sesdaq Ltd	-10.39	7	-7.24	7	110.03	2	69.85	3	4	11.1
Thornton New Tiger Singapore	-0.65	1	8.71	3	—	—	—	—	—	—
Sector Average (total number)	-6.08	(8)	6.65	(7)	107.07	(5)	137.15	(3)	—	—
MSCI Singapore Index	-1.15	—	24.82	—	87.14	—	103.37	—	—	—

Malaysia & Singapore Equities

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/
	%	Rank	%	Rank	%	Rank	%	Rank		Risk
Dao Heng Malaysia & Singapore	-3.72	1	22.30	1	79.21	7	—	—	1	11.4
Indosuez Singapore & Malay	-14.01	6	18.81	2	186.01	2	174.62	2	3	23.3
GAM Singapore/Malaysia	-8.38	2	17.33	3	196.18	1	199.05	1	2	28.1
Finistere Sing & Malay Life	-12.90	5	4.08	4	103.94	6	70.44	6	1	15.0
Baring IUF Malaysia & Sing	-12.69	4	-0.65	5	117.09	4	143.23	4	3	15.0
Royal Life/Baring Malay & Sing	-12.52	3	-3.78	6	105.64	5	119.83	5	2	14.1
Nomura SF Singapore & Malaysia	-20.94	8	-9.95	7	—	—	—	—	—	—
Mercury ST Singapore & Malay	-23.91	9	-14.40	8	140.65	3	165.48	3	4	13.6
Sector Average (total number)	-13.74	(9)	4.22	(8)	132.67	(7)	145.44	(6)	—	—

Thailand Equities

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/
	%	Rank	%	Rank	%	Rank	%	Rank		Risk
JF Thailand	-10.46	2	26.14	1	273.04	1	248.45	1	4	26.0
Fidelity Fds Thailand	-10.64	4	24.43	2	234.22	2	—	—	3	26.3
Barclays ASF Thailand	-12.09	6	17.92	3	211.84	3	—	—	3	24.5
Thornton New Tiger Thailand	-10.56	3	12.68	4	197.17	4	—	—	4	20.3

	Return									
	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/
	%	Rank	%	Rank	%	Rank	%	Rank		Risk
Dres Thornton ASF Thailand	-11.54	5	11.13	5	—	—	—	—	—	—
Winchester Thailand	-16.25	7	-0.24	6	—	—	—	—	—	—
CIBC-CEF Thai	-17.11	8	-2.37	7	105.83	6	96.03	3	2	12.7
Siam Fund (Cayman) Ltd	-18.21	9	-5.79	8	149.22	5	130.19	2	2	17.4
MBf Thailand	-18.88	10	-31.92	9	14.20	7	-17.17	4	1	2.4
Royal Life/Conn Thailand	-18.95	11	-33.07	10	9.24	8	-20.56	5	1	1.5
Sector Average (total number)	-13.98	(11)	1.89	(10)	149.34	(8)	87.39	(5)	—	—
MSCI Thailand Index	-14.95	—	8.71	—	137.50	—	99.94	—	—	—

ndonesia Equities

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/
	%	Rank	%	Rank	%	Rank	%	Rank		Risk
Lippo Indonesian Growth	-7.51	2	18.75	1	—	—	—	—	—	—
CL Indonesian Growth	-12.62	3	-15.21	2	92.80	1	-10.27	2	1	15.6
Barclays ASF Indonesia	-14.36	4	-20.48	3	54.45	3	—	—	4	7.5
Dres Thornton ASF Indonesia	-19.17	7	-29.00	4	—	—	—	—	—	—
JF Indonesia	-14.77	5	-29.25	5	57.89	2	3.02	1	2	9.6
Thornton New Tiger Indonesia	-18.92	6	-29.63	6	44.47	4	—	—	4	5.5
MBf Indonesian Growth	-21.97	8	-32.77	7	-9.85	5	-74.13	3	3	-1.5
Sector Average (total number)	-14.46	(8)	-19.65	(7)	47.95	(5)	-27.13	(3)	—	—
MSCI Indonesia Index	-19.38	—	-18.24	—	43.19	—	-21.30	—	—	—

Philippines Equities

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/
	%	Rank	%	Rank	%	Rank	%	Rank		Risk
Manila Fund (Cayman) Ltd	-7.08	3	42.13	1	251.99	2	184.12	1	1	26.7
JF Philippine	-1.27	2	21.98	2	218.21	3	48.32	2	2	22.1
Barclays ASF Philippines	-8.73	5	16.65	3	161.72	4	—	—	3	15.4
Thornton New Tiger Philippine	-0.36	1	10.17	4	284.48	1	26.22	3	4	24.1
Sector Average (total number)	-4.94	(5)	22.73	(4)	229.10	(4)	86.22	(3)	—	—
MSCI Philippines Index	-4.35	—	22.98	—	190.30	—	122.57	—	—	—

Emerging Markets Equities

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/
	%	Rank	%	Rank	%	Rank	%	Rank		Risk
MBf Venture Portfolio	-5.95	14	24.90	1	—	—	—	—	—	—
Citimarkets Glbl Emerg Mkts	-11.32	34	24.22	2	—	—	—	—	—	—
Genesis Emerging Markets	-0.38	2	23.34	3	99.92	5	214.95	2	1	21.0
Buchanan Emerging Markets	-9.11	23	17.84	4	—	—	—	—	—	—
Ermitage Emerging Markets	-1.20	3	17.41	5	—	—	—	—	—	—
Schroder Emerging Markets	-8.34	21	17.34	6	—	—	—	—	—	—
KB Emerging Markets	-8.51	22	14.05	7	—	—	—	—	—	—
INVESCO Pioneer Markets	-11.02	33	13.79	8	74.33	9	101.42	3	2	14.0
KB SEL Emerging Asia	-12.24	39	13.57	9	100.14	4	—	—	3	16.9
Royal Life/INV Pioneer Mkts	-10.68	31	13.52	10	63.23	12	79.87	6	4	9.8
CL Developing Markets	-12.89	43	11.39	11	105.45	3	—	—	3	17.3
Baring EMUF Global Emerg Mkts	-15.51	50	11.33	12	—	—	—	—	—	—
SHK Oriental Emerg Economies	-9.85	28	11.02	13	78.43	8	78.14	7	3	12.9
Sector Average (total number)	-9.28	(53)	8.02	(41)	79.84	(18)	116.87	(8)	—	—
MSCI Emerging Markets Index	-9.45	—	20.31	—	81.58	—	57.23	—	—	—

Australia & New Zealand Equities

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/
	%	Rank	%	Rank	%	Rank	%	Rank		Risk
Schroder Australian Share	10.00	1	21.11	1	43.64	5	87.43	1	2	8.3
Aetna IUF Australian Eqty A	-3.06	3	18.40	2	18.30	12	28.10	9	4	3.1
Aetna IUF Australian Eqty B	-3.30	4	17.22	3	—	—	—	—	—	—
Barclays Australian Equity	-5.27	11	15.31	4	24.39	11	15.11	12	4	4.3
GAM Australia	-7.21	16	14.03	5	43.45	6	44.02	5	2	8.4
Baring IUF Australia	-8.19	19	12.01	6	51.99	3	51.57	2	4	8.2

Australia & New Zealand Equities — *cont'd*

	Return									
	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/ Risk
	%	Rank	%	Rank	%	Rank	%	Rank		
Fidelity Fds Australia	-4.51	8	11.57	7	—	—	—	—	—	—
Gartmore CSF Australasian	-5.27	10	11.51	8	39.44	8	44.61	4	3	7.3
Mercury ST Australia & NZ	-6.09	12	9.02	9	48.19	4	50.28	3	4	8.6
Wright EF Australasian Natl Eq	-3.30	5	8.85	10	7.02	17	—	—	1	1.8
Five Arrows Australian Equity	-2.43	2	8.48	11	16.98	14	29.71	8	1	3.5
CMI GNF Australasian Equity	-3.51	6	8.20	12	15.97	16	—	—	1	3.4
GT Australian Sml Cos B Share	-11.08	23	6.46	13	69.40	1	—	—	3	13.2
GT Australia B Share	-7.08	14	6.12	14	17.26	13	17.85	10	3	3.2
GT Australian Sml Cos A Share	-11.22	24	5.86	15	67.54	2	—	—	2	12.9
Sector Average (total number)	-5.68	(26)	8.77	(22)	33.43	(20)	39.19	(13)	—	—
MSCI Australia Index	-1.86	—	17.24	—	30.29	—	56.15	—	—	—

North America Equities

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/ Risk
	%	Rank	%	Rank	%	Rank	%	Rank		
Seahawk International Inc	-2.23	12	36.17	1	—	—	—	—	—	—
GT US Smaller Companies	-2.44	13	16.95	2	63.27	7	93.94	7	4	11.6
Sun Life GP American Growth	0.96	4	10.48	3	76.03	3	78.85	8	2	23.8
Condor International Inc	-0.84	7	10.15	4	—	—	—	—	—	—
Templeton GS American	-8.32	83	7.48	5	48.50	14	—	—	2	15.0
RG America	-6.91	65	7.33	6	47.70	18	—	—	2	14.3
Alpha Tilldale	0.42	5	6.75	7	23.99	43	—	—	1	20.3
Orion Fund Ltd	-6.03	55	6.63	8	69.99	6	—	—	1	28.8
Mercury ST North American	-3.38	23	5.38	9	46.29	22	60.56	17	3	13.8
Albany Intl N American Dllr	-3.36	21	5.25	10	60.34	8	76.92	9	2	18.5
Fleming FF American	-5.02	40	5.02	11	76.77	2	128.95	3	3	22.9
Alpha Short	7.69	1	4.13	12	-23.15	78	—	—	4	-5.1
Midland ICF American Opps	-3.66	25	4.02	13	31.10	28	—	—	1	11.7
Royal Life Intl American	-7.75	74	3.15	14	59.12	9	62.29	16	4	14.7
Prov Cap N.American Stkmkt	-4.55	32	2.79	15	47.73	17	51.52	25	4	10.8
Sector Average (total number)	-5.21	(93)	-2.24	(90)	30.22	(78)	51.74	(58)	—	—
MSCI North America Index	-2.11	—	2.10	—	30.67	—	52.28	—	—	—

U.S. Equities

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/ Risk
	%	Rank	%	Rank	%	Rank	%	Rank		
GT Technology B Share	1.36	5	22.86	1	34.11	20	71.67	14	4	6.3
GT Technology A Share	1.23	6	22.21	2	32.96	22	70.19	15	4	6.1
Putnam Emerging Info Science	8.05	2	17.48	3	116.15	1	218.05	1	4	17.1
GAMerica	-8.86	61	12.27	4	58.11	8	74.26	13	3	15.4
Govett GSIL US Smaller Cos	-1.52	14	11.06	5	57.20	9	83.58	10	3	12.2
GT Biotec & Applied Science B	-7.28	52	9.76	6	55.37	10	—	—	4	8.3
GT Biotec & Applied Science A	-7.47	53	9.35	7	54.78	11	—	—	4	8.2
Citifunds US Emerg Technolgies	5.09	4	9.06	8	80.73	3	188.02	2	4	11.1
McD Merger Arbitrage	-4.53	34	8.84	9	35.52	17	65.02	16	1	18.1
Von Ernst GP US Sm Cos Eqty	-0.84	10	8.20	10	27.16	30	17.50	28	4	4.9
GAM Arbitrage	-1.37	11	7.75	11	49.01	12	74.78	12	1	36.0
Arral American Quant	-2.83	18	6.26	12	42.93	13	—	—	1	20.8
Schroder Intl Sel US Sm Cos	-5.04	37	4.92	13	95.89	2	146.80	3	3	21.7
CMI GNF US Equity	-5.12	40	3.89	14	30.22	23	—	—	1	11.6
JF American Growth	-5.17	41	3.11	15	75.64	4	64.72	17	2	22.4
Sector Average (total number)	-4.35	(68)	-0.54	(57)	35.12	(48)	74.16	(30)	—	—
MSCI United States Index	-2.74	—	-0.65	—	21.88	—	34.27	—	—	—

Canada Equities

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/ Risk
	%	Rank	%	Rank	%	Rank	%	Rank		
AGF Canadian Security Growth	-10.50	4	4.05	1	18.56	1	17.91	1	3	5.1
CMI GNF Canadian Equity	-6.85	2	-2.63	2	-12.60	4	—	—	1	-4.0
CMI Insur Canadian Equity	-6.86	3	-5.57	3	-16.08	5	—	—	2	-4.9

	Return									
	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/
	%	Rank	%	Rank	%	Rank	%	Rank		Risk
RBC Canadian	-11.24	5	-7.08	4	14.54	2	8.73	2	4	3.5
Gartmore CSF Canadian	-6.54	1	-11.23	5	0.61	3	-5.55	3	4	0.2
Sector Average (total number)	-8.40	(5)	-4.49	(5)	1.01	(5)	7.03	(3)	—	—
MSCI Canada Index	-7.05	—	0.34	—	0.94	—	0.90	—	—	—

Europe Equities

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/
	%	Rank	%	Rank	%	Rank	%	Rank		Risk
Prov Cap European Stockmarket	-7.20	71	30.45	1	92.17	1	86.30	1	4	17.7
Mercury ST European Opps	-4.85	14	17.92	2	47.08	5	39.15	13	3	11.6
Royal Life Intl European	-8.24	103	17.78	3	51.87	3	60.24	2	4	11.8
Templeton GS European	-7.40	77	17.72	4	27.37	46	—	—	4	6.0
Barclays (Lux) Euro Equity	-5.51	22	17.43	5	39.11	13	43.27	8	3	9.4
Buchanan Alpha Euro Hedge	-3.00	5	17.14	6	—	—	—	—	—	—
TSB OIF European	-11.05	118	17.09	7	88.98	2	—	—	4	20.1
CCF/Fram Euro Smllr Cos A	-7.72	91	16.05	8	16.38	73	22.40	38	4	3.3
Sun Life GP Common Market Gth	-12.10	120	14.80	9	20.54	61	21.06	41	4	4.5
Allied Dunbar Europe	-8.18	101	14.10	10	42.85	8	47.48	5	2	11.4
Five Arrows IE Europe	-6.27	38	14.00	11	—	—	—	—	—	—
BT IIS European Growth	-6.13	36	13.91	12	—	—	—	—	—	—
Singer & Fried European Gth	-6.37	44	13.69	13	—	—	—	—	—	—
Allied Dunbar IB Europe	-8.79	108	13.58	14	—	—	—	—	—	—
Hansard European Growth	-6.77	50	13.52	15	—	—	—	—	—	—
Sector Average (total number)	-6.78	(120)	8.13	(114)	28.71	(84)	27.51	(59)	—	—
MSCI Europe Index	-4.24	—	7.31	—	33.74	—	50.93	—	—	—

Britain Equities

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/
	%	Rank	%	Rank	%	Rank	%	Rank		Risk
Royal Life/Hend UK Growth	-0.80	1	14.91	1	23.53	16	36.42	24	1	5.1
Henderson HF UK Smllr Cos	-5.60	42	14.59	2	34.60	6	50.18	13	1	7.7
Morgan Grenfell Selector UK	-6.70	62	13.32	3	—	—	—	—	—	—
Mercury ST UK Opportunities	-6.70	63	11.23	4	—	—	—	—	—	—
Von Ernst GP UK Sm Cos Eqty	-8.41	74	10.93	5	50.17	2	71.23	2	4	9.3
Prolific IF UK Equity Inc	-4.91	24	8.37	6	31.18	7	59.38	5	3	6.1
Cater Allen Equity Growth	-6.65	60	8.14	7	13.37	36	25.28	33	4	2.4
Chameleon UK Equity	-3.09	4	8.03	8	—	—	—	—	—	—
M&G Island UK	-6.70	64	6.75	9	31.13	8	58.84	6	4	5.9
TSB OIF UK Equity	-8.06	72	6.39	10	78.44	1	—	—	4	13.4
Five Arrows IE UK Smllr Cos	-6.70	61	6.37	11	—	—	—	—	—	—
BNP Intr Str Eur du Nord	-4.01	12	6.28	12	10.00	43	19.57	38	1	2.4
Guinness Fl GSF UK	-6.37	54	6.19	13	25.16	14	33.07	26	3	5.0
Jupiter Tyndall GF UK Sm Cos	-10.99	82	6.15	14	—	—	—	—	—	—
Lazard SIT UK Index	-3.93	10	6.13	15	22.58	17	59.94	4	—	—
Sector Average (total number)	-5.91	(83)	2.88	(78)	16.63	(65)	37.37	(46)	—	—
MSCI United Kingdom Index	-3.84	—	2.42	—	23.21	—	60.18	—	—	—

International Bonds

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/
	%	Rank	%	Rank	%	Rank	%	Rank		Risk
Star High Yield	11.25	3	40.04	1	—	—	—	—	—	—
Garantia Debt	14.56	1	39.49	2	—	—	—	—	—	—
Pacific NZ Dllr Fix Int	7.31	6	24.23	3	35.28	24	59.97	65	1	21.4
Pacific Aus Dllr Fix Int	5.55	8	23.77	4	16.90	169	48.48	132	2	7.6
Finrand High Yield - Cap	13.41	2	20.31	5	23.06	95	—	—	4	3.9
Pacific International Bond	4.69	10	19.26	6	64.60	2	—	—	4	15.5
Cindam Balanced	2.53	39	19.06	7	—	—	—	—	—	—
Winchester RL Intl Secs F	-1.53	411	16.36	8	32.22	37	75.95	11	3	9.3
Pacific SWF Fixed Interest	-3.34	462	16.21	9	24.80	87	60.18	62	4	6.6

International Bonds — *cont'd*

	Return									
	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return
	%	Rank	%	Rank	%	Rank	%	Rank		Risk
Winchester RL IS Madison	-1.43	403	16.17	10	32.04	38	—	—	3	9.5
Winchester HL Intl Secs F	-1.60	417	15.98	11	30.87	42	72.32	18	3	8.9
Winchester RL Intl Secs D	-1.70	421	15.93	12	35.05	27	71.95	20	3	10.0
Winchester HL IS Madison	-1.49	405	15.87	13	30.95	41	—	—	3	9.2
Winchester HL Intl Secs D	-1.77	426	15.59	14	33.53	33	69.28	29	3	9.7
Pacific FRF Fixed Interest	-1.99	433	15.19	15	28.12	63	—	—	3	8.5
Sector Average (total number)	0.13	(483)	0.42	(457)	18.23	(350)	49.82	(239)	—	—
Salomon World Bond-Local Currencies	-0.67	—	-5.16	—	24.78	—	48.80	—	—	—

Managed Currencies

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return
	%	Rank	%	Rank	%	Rank	%	Rank		Risk
Pacific AUD Mgd Currency	3.72	2	23.26	1	14.57	19	47.26	24	3	6.4
GS Global Currency CHF	-1.50	73	18.24	2	—	—	—	—	—	—
IBI Global Managed Currency	-0.49	55	15.77	3	10.55	29	51.88	14	3	3.2
Five Arrows IRL Mgd DMark	-0.90	63	15.36	4	20.00	7	54.81	10	3	9.9
Hambros EMMA Contl Euro Money	-1.32	69	14.18	5	25.65	3	59.46	4	4	7.1
Old Mutual Wwide Currency DEM	0.45	29	13.83	6	—	—	—	—	—	—
JF Managed Currency	2.23	5	12.88	7	24.30	6	—	—	3	9.2
AIB Grofund Irish Pnd Mgd Curr	-1.46	71	12.12	8	—	—	—	—	—	—
Mercury MMT Sterling Managed	-1.75	75	10.92	9	15.46	15	58.02	6	3	5.1
Hill Samuel ICF Sterling Mgd	-0.80	60	10.34	10	8.42	34	32.07	34	3	3.0
Old Mutual Wwide Currency GBP	1.09	13	10.28	11	—	—	—	—	—	—
AIB Grofund Sterling Mgd Curr	-0.53	57	10.09	12	12.48	24	61.76	1	4	3.5
Five Arrows IRL Mgd Sterling	-0.42	51	9.43	13	11.79	27	53.08	13	3	4.9
Gartmore CSF Stlg Global Curr	0.35	31	8.92	14	—	—	—	—	—	—
Capital Hse IGF Sterling Mgd	0.16	35	8.84	15	6.89	39	49.25	22	3	2.2
Sector Average (total number)	-0.69	(88)	1.03	(84)	7.30	(67)	40.01	(51)	—	—

Commodities

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return
	%	Rank	%	Rank	%	Rank	%	Rank		Risk
McD Financial Arbitrage	3.64	4	24.50	1	86.89	1	114.08	1	1	36.8
Barclays Global Resources	-6.93	15	21.83	2	41.33	2	3.24	13	2	9.4
Mercury Energy International	-3.83	9	9.52	3	23.39	6	31.35	6	2	6.2
Guinness Fl GSF Glbl Energy	-5.74	10	9.18	4	22.52	8	9.64	11	2	5.4
Schroders Asia Energy	-6.02	11	6.98	5	23.03	7	24.03	7	3	4.6
MORES	-6.42	13	6.52	6	27.12	5	31.41	5	1	7.8
AGF Canadian Gas & Energy	-6.49	14	-3.22	7	10.35	11	9.76	10	1	3.2
MIMC MINT Gtd Dec 1994	3.87	3	-8.12	8	28.70	3	33.98	4	3	4.7
MIMC MINT Gtd Aug 1995	1.45	6	-10.41	9	28.00	4	34.80	2	4	4.5
MIMC MINT Gtd Spcal Issue	1.15	7	-13.87	10	22.19	9	34.01	3	4	3.4
MIMC MINT Ltd Ordinary	8.36	2	-14.18	11	10.80	10	8.15	12	4	1.7
MIMC MINT Ltd Income	8.42	1	-14.18	12	4.75	13	-2.50	14	3	0.8
MIMC MINT Gtd Nov 2002	-0.62	8	-18.50	13	9.12	12	10.27	9	3	1.5
Systemtrend Ltd	2.03	5	-18.85	14	-6.36	14	23.57	8	4	-1.0
Sector Average (total number)	-0.88	(15)	-1.63	(14)	23.70	(14)	26.13	(14)	—	—
Reuters Commodity Index	-0.51	—	37.28	—	14.43	—	15.78	—	—	—

Derivatives

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return
	%	Rank	%	Rank	%	Rank	%	Rank		Risk
Hasenbichler Commodities	6.59	11	40.00	1	234.80	1	—	—	4	23.9
AHL Commodity	30.69	1	39.13	2	—	—	—	—	—	—
Kodiak International	6.91	9	24.35	3	—	—	—	—	—	—
Regent Pacific Arbitrage	2.20	27	24.23	4	—	—	—	—	—	—
Dynasty	-11.18	118	21.19	5	—	—	—	—	—	—
GNI Directional	-4.99	97	18.73	6	—	—	—	—	—	—
CLR Select Div AUD Trading	6.81	10	13.28	7	—	—	—	—	—	—
CLR Select Curr DEM Trading	2.52	25	12.90	8	—	—	—	—	—	—

	Return									
	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/ Risk
	%	Rank	%	Rank	%	Rank	%	Rank		
'SG General USD Units	-0.50	50	12.08	9	38.95	11	—	—	2	9.0
'SG General GBP Units	-3.75	86	11.89	10	37.62	13	—	—	2	8.8
'SG General CHF Units	-4.82	95	11.49	11	37.89	12	—	—	3	8.4
3NI Euro Financials	-3.95	87	11.48	12	—	—	—	—	—	—
Vinchester Futures Olym Star	-0.10	45	9.91	13	51.01	8	—	—	1	22.8
John Henry Gl Strategies K	0.95	33	9.88	14	—	—	—	—	—	—
Privestor Global Diversified	0.40	38	9.11	15	—	—	—	—	—	—
Sector Average (total number)	-2.10	(128)	-3.45	(117)	23.62	(45)	88.70	(15)	—	—

eposits

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/ Risk
	%	Rank	%	Rank	%	Rank	%	Rank		
Fidelity Money FIM Acc	1.88	14	24.13	1	—	—	—	—	—	—
JF Money Fund AUD	5.70	5	23.48	2	15.52	107	—	—	2	7.0
Lloyds Intl MMF NZD	7.39	2	23.16	3	32.94	27	57.36	68	2	19.8
Five Arrows CFL NZD	7.44	1	23.11	4	31.97	28	54.23	91	2	18.4
Five Arrows IRL NZD	7.34	3	22.79	5	31.67	29	53.70	97	2	19.3
Fidelity Money NZD Acc	7.28	4	22.72	6	31.64	30	—	—	2	18.1
Lloyds Intl MMF AUD	5.54	6	22.63	7	13.43	108	44.34	130	2	5.9
Five Arrows IRL AUD	5.52	7	22.57	8	12.92	111	42.61	134	2	5.8
Fidelity Money AUD Acc	5.49	9	22.36	9	12.55	112	—	—	2	5.6
Five Arrows CFL AUD	5.52	8	22.33	10	12.34	114	42.25	136	2	5.4
Gartmore CSF AUD Deposit	5.47	10	22.03	11	11.39	117	38.53	138	2	3.8
Capital Hse IGF Aus Dollar	5.45	11	21.83	12	12.99	110	43.60	133	2	5.8
Lloyds Intl MMF PTE	-0.87	175	20.69	13	—	—	—	—	—	—
Sun Life G'teed Money Skr	0.14	88	20.65	14	—	—	—	—	—	—
Five Arrows CFL Swedish Krone	0.10	90	20.63	15	3.52	222	38.24	139	4	0.7
Sector Average (total number)	-0.29	(300)	10.32	(295)	15.99	(245)	48.54	(193)	—	—

'roperties

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/ Risk
	%	Rank	%	Rank	%	Rank	%	Rank		
I.O.M. Ass Holiday Prop	-1.33	2	4.04	1	-19.59	3	-6.23	1	2	-5.1
Rodamco	-12.86	3	-7.89	2	2.43	2	-9.13	2	4	0.4
PanEurolife Intl Real Estate	-15.17	4	-10.80	3	15.32	1	—	—	3	3.0
Sector Average (total number)	-7.00	(4)	-4.88	(3)	-0.61	(3)	-7.68	(2)	—	—

Varrants

	Past three months		Past 12 months		Past three years		Past five years		Volatility	Return/ Risk
	%	Rank	%	Rank	%	Rank	%	Rank		
Schroders Asia FE Warrant	-21.58	20	40.18	1	88.80	5	—	—	3	6.9
Cresvale Equity Warrant (Jap)	-26.58	24	16.00	2	-74.89	26	—	—	4	-3.5
KB Japanese Warrant	-28.98	26	15.14	3	-38.89	21	—	—	4	-1.9
INVESCO Nippon Warrant	-21.43	19	13.24	4	-65.47	23	-94.95	6	4	-3.1
Fleming Japanese Warrant	-19.87	16	10.62	5	-67.87	24	—	—	4	-3.4
INVESCO G'teed Nippon Warrant	1.63	1	5.60	6	16.69	13	—	4	1	22.9
HSBC European Warrant	-0.54	2	5.22	7	142.45	1	—	—	1	17.4
Gartmore Japan Warrant	-26.15	21	4.35	8	-69.23	25	-95.31	7	4	-3.0
JF Japan Warrants	-17.93	11	2.33	9	-35.07	20	—	—	3	-1.8
Regent Lifford Country Warr	-18.03	12	0.61	10	—	—	—	—	—	—
HSBC Asian Warrants	-10.71	8	0.34	11	47.02	8	—	—	1	7.1
Al Kharejiyah GSF Inc Gt Warr	-1.45	3	-1.01	12	10.82	14	-11.90	5	—	—
Schroders Asia Intl Warrant	-19.81	15	-2.88	13	-17.05	16	—	—	2	-1.9
CIBC-CEF German Share & Warr	-16.38	10	-3.80	14	3.09	15	—	—	1	0.6
Govett SE Asian Warrant	-19.32	14	-7.45	15	77.36	7	—	—	2	6.0
Sector Average (total number)	-21.43	(34)	-10.52	(30)	14.63	(27)	18.72	(7)	—	—

Note: Performance up to Dec. 16, 1994. All returns calculated in U.S. dollars. Data supplied by Micropal.

The Cost of Living the Good Life

You're on the road. Maybe you're living the good life. Maybe you're not. Either way, the hotel bar beckons. But before you go in, we thought you should know the risks (at least the financial ones) of patronizing some of the world's posher hotel watering holes. As best we can remember — and what a headache an assignment like this can produce — Tokyo was no bargain, there are better things to do in Hong Kong than drink champagne by the bottle, and a Singapore Sling generally costs more closer to the source.

Prices in $	Bangkok	Hong Kong	Jakarta	Kuala Lumpur	Manila	New Delhi	Seoul	Singapore	Taipei	Tokyo	U.S.
Draught beer	4.80	5.15	4.15	4.20	1.80	2.80	4.80	5.80	N.A	8	4.50
Imported beer	6	5.15	8.55	6	4.50	N.A.	6.95	7.15	5.50	8	4.75
House wine	6	6.20	5.75	6	2.75	3.80	6.30	7.50	10	12	4.75
Champagne (glass)	12.80	15.50	12.30	11.60	5	N.A.	10.10	13.25	17	18	8
Champagne (bottle) Moet & Chandon	96	270	92	136	106	70	107	66★	109	140	59★
Whisky	6.80	6.75	6.60	6.40	3	7.60	4.15	8	10	9.50	5.50
Vodka	5.20	6.75	5.90	6.20	2.65	2.80	4.15	6.80	9	8.50	5
XO cognac	10	17	16	19	11	29	23	17	18	38	20
Remy Martin Louis XIII	77	107	174	110	43	N.A.	126	73	64	95	80
Martini	5.20	7.75	7.05	7	2.50	4.75	5.30	10.90	10	8.50	5.75
Margarita	6.40	7.75	7.05	7	2.65	8.70	5.30	8.15	10	10	6
Singapore Sling	6.40	7.75	6.60	7	2.50	N.A.	5.30	9.85	10	10.50	6
Irish coffee	6	8.40	6.60	7.60	3	N.A.	5.30	8.35	10	13	6
Soft drink	2.80	4.50	3.10	2.60	2	1.50	2.75	4.10	5	6	2.75

Note: Prices do not include tax or service charge N.A. — Not available ★ Taittinger champagne *Source*: REVIEW Data

A Sure Thing?

y Gary Silverman

Imagine an investment that combines the volatility of derivatives with the unpredictability of emerging stock-arkets, guarantees the return of your ıpital and offers the promise of better turns than a bank account or a bond.

No, we're not talking about Orange ounty.

Actually, Citibank in Hong Kong ised $26 million during the last two ıonths of 1994 from retail investors by ffering just such a product — its Citi-sia and Citi-Latin America Capital Guar-nteed Funds.

The idea is to give Asian investors a ance to play some of the riskier games the world of finance without much sac-fice — other than a 5% front-end pay-ıent and an annual 1% management fee. 's an idea for the times. We're in a bear arket, you know.

"If everything else was good we would robably launch a fund that was more tock-related, but the market is not so ealthy," says Peter Wong, director of banking for Citibank in Hong Kong. So Citibank is catering to the emerging taste for caution. "When the flavour comes, you have to have the products," Wong says.

Here's how it works. First, an investor gives Citibank at least $10,000 for a minimum of three years, with penalties of up to 5% for early withdrawal. After using the money to buy United States Treasury issues or other sovereign debt — thereby guaranteeing the capital — Citibank takes the interest and has some fun.

It swaps the interest to a counterparty — in this case, Citibank in New York — for a return based on the appreciation of a weighted basket of stock indexes in Asia or Latin America. There are nine indexes in the Asian basket, with the two biggest — Japan's Nikkei 300 and Australia's All Ordinaries — accounting for 50% of the weighting. Mexico's Bolsa Index makes up 70% of the Latin American basket.

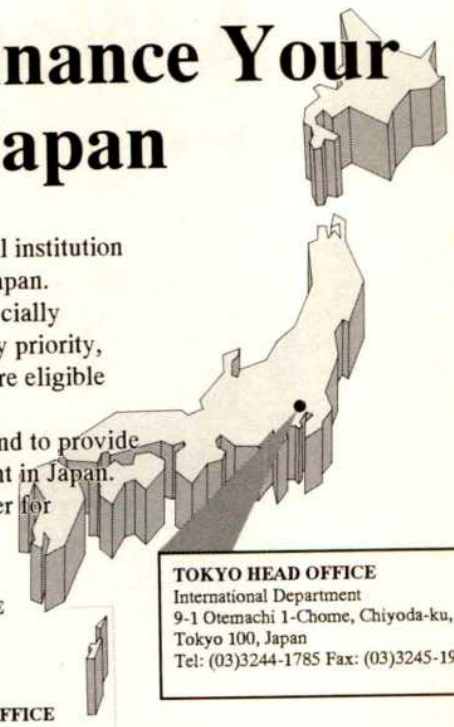
If your basket falls over three years, all you get back is your original capital. If it goes up, you receive an amount equal to 118% of that appreciation in Asia and 57% in Latin America. The difference accounts for greater currency volatility in Latin America, Citibank says.

Although the actual calculation is more complicated, Citibank officials say if you invested $10,000 in the Asia fund and the indexes rose 100%, you would basically get back $11,800, plus principal. In Latin America, a 100% gain would yield $5,700, plus principal.

How Citibank in New York manages to produce this return is a mystery — at least as far as investors are concerned. "The investors don't know," says Bonnie Lam, Citibank investment manager. "They [the counterparty] take the interest to do whatever they like. They can do call options, put options, other derivatives."

That means participants in the fund essentially would be letting bankers do their gambling for them — in return for less risk. The question is whether Asian punters would pursue similar strategies once hands-on stock picking becomes more lucrative. "Citibank has a good product idea. With the markets so volatile, I think people will like that," says Richard Wastcoat, regional managing director of Fidelity Investments in Hong Kong. "But in the long-run, people in Asia will put most of their money in the stock-market." ■

JDB's Mandate Is to Finance Your Successful Entry into Japan



The Japan Development Bank (JDB) is a government-owned financial institution specializing in low-interest, long-term loans for capital investment in Japan. Among a wide variety of loan programs, JDB offers three which are specially designed for foreign firms. In view of the Japanese government's policy priority, foreign direct investment and facilities for imported products in Japan are eligible for JDB's most favorable loan terms.

JDB has six centers to explain these loan programs to foreign firms and to provide a broad range of introductory information pertaining to direct investment in Japan.

If you are looking to invest in Japan, please contact your local "Center for Promotion of Direct Investment in Japan" listed below.

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THE JAPAN DEVELOPMENT BANK

No strangers to controversy: Legislative Councillors (*from left*) Anna Wu, Emily Lau, Christine Loh.

POLITICS

A Woman's Place

For three, it's in Hong Kong's legislature — making waves

By Louise do Rosario in Hong Kong

Women may hold up half the sky, as a Chinese proverb puts it, but they've traditionally had a far smaller role in the world's legislatures, particularly those in the conservative, Confucian societies of Asia.

Hong Kong is about as tradition-bound as any: Women account for only 13% of its highest law-making body, the Legislative Council. Among that minority, though, are three women who have given the colony a collective shot in the arm in its last years of colonial rule. Indeed, they seem to have dominated the political stage of late.

Legco members Christine Loh, Anna Wu and Emily Lau (dubbed "ACE" for their first initials) represent what for Hong Kong is a relatively new phenomenon: the woman as professional politician, leading challenges to the sacred cows of Chinese and colonial tradition. In the process they are giving gender issues a broader airing and helping dispel the still-strong notion that politics is an art best left to males. That may hardly sound revolutionary to Westerners, but it's no small step for a society where even men — to say nothing of women — have little tradition of participatory government.

"Hong Kong society has matured," says fellow legislator Henry Tang. "The participation of women in politics is just one component of this growing sophistication."

While the trio aren't the first women to shake Hong Kong's political tree (81-year-old Legco member Elsie Tu was doing so 30 years ago), their strong personalities and controversial proposals have grabbed public attention like few before them.

Loh, 38, whose benign manner betrays some stern convictions, ruffled Hong Kong's male-dominated rural communities in 1994 when she got the government to change a law that allowed only males to inherit rural land.

Wu, 43, another calm-dispositioned legislator, challenged the government to set up a commission to monitor the territory's human-rights performance. The government refused, but Wu managed to put officials on the spot and draw public attention to the issue.

Lau, 42, known for her sharp tongue, sponsored her own bombshell last year: A measure that would have subjected all of Legco's 60 seats to popular election (only 18 are now), making the body more like a Western-style parliament. The bill lost by a single vote.

While they don't always succeed, that they're in there and pitching at all is a measure of how much the colony has changed in the waning years of British rule. For decades, the colonial administration effectively kept women out of politics. The governor enjoyed paramount power — aided by the Executive Coun-

l, in essence a cabinet staffed mainly by ›enior government officials and business ›xecutives. Legco debated policies, but ıe governor had the final say. Both Exco nd Legco councillors were appointed by ıe governor, who usually picked pro-usiness conservative figures, mostly ıen.

Though both councils date from the 840s, as late as 1973 there was but a sin-le woman sitting in Legco (then with nly 30 members), and it was only in 976 that a woman was appointed to ›xco.

The following decade brought change. ı 1984, the Sino-British Joint Declaration ›rmalised plans for Hong Kong's return › China in 1997. The colonial govern-nent, eager to groom locals for the self-ule Hong Kong is supposed to have as a ›pecial Administrative ›egion, introduced politi-al reforms that allowed ome Legco members to ›e chosen by ballot, start-ng in 1991.

Though she had no ›revious political experi-nce, Lau ran and won, lefeating six men. Voters eemed to like her out-›poken views. "Electors ıre very fair," says Lau. 'They judge you on your nerits, not whether you vear a tie or a skirt."

Then came Hong Kong's activist governor, Chris Patten, in 1992. One ›f his first acts: appoint-ng to Legco Loh and Wu, ›oth former members of he Hong Kong Obser-vers, an independent public-affairs group ›ften critical of the government. Says Nor-nan Miners, a political-science professor ıt Hong Kong University: "He was look-ıg for democrats rather than supporters ›f the status quo."

Since then, the three have kept Pat-ten busy responding to demands for more-transparent government and an end to inequality. Among specific measures: Wu has pushed legislation that would ban discrimination in employment. The government has rejected her proposal, but is drafting a more restrictive version of its own. Lau got Legco in 1992 to adopt a United Nations convention outlawing discrimination against women. Loh pro-posed granting individuals access to gov-ernment information about themselves. The measure failed, but, as with Wu on human rights, Loh managed to draw pub-lic attention to the issue.

To be sure, women still have a far smaller presence than do men in every level of Hong Kong's political hierarchy. Females represent less than 20% of dis-trict boards, the colony's lowest level of elected government. Of Legco's 60 mem-bers, only eight are women. The ratio has tripled since the 1960s (it reached 20% with the 1988 election), but remains far below where many think it should be. Political parties remain hesitant to spon-sor female candidates.

"We have come a long way," says Lau, "but there is still a long way to go."

Getting there means confronting con-servative traditions "kept intact behind the facade" of a seemingly Westernized Hong Kong, says Fanny Cheung, a spe-cialist on gender issues at Chinese Uni-versity of Hong Kong. Perhaps the key barrier is the perception — popular among both sexes — that women gener-ally lack the mettle that politics requires.

THOMAS CHENG/AFP

Loh's allies: Hakka women from the New Territories agitate for equal inheritance rights outside the Legislative Council.

A 1985 survey by the Association for the Advancement of Feminism showed that women refrained from public affairs largely because they felt they weren't good enough.

"Few women aspire to be leaders or public figures," says Cheung. "They have lower self-esteem."

Lau believes that is largely the result of upbringing. "Look at the textbooks," she says. "A man is always a banker, an engineer and a lawyer. A woman is a mother working at home. You have these stereotypes pounded into your head day and night when you were young."

In some ways, arguably, Loh, Wu and Lau reinforce these notions: All are suc-cessful career people, suggesting that women must be exceptional in some way in order to make it in politics (Lau, 42 years old, was a journalist; Wu, 43, a law-yer; Loh, 38, a business executive).

"They don't represent the typical women," says Cheung. "They have unu-sually high educational achievements and professional status to enable them to gain a foothold in politics."

Wan Chi-kie of the Association for the Advancement of Feminism agrees: "They are too elitist," she says. "Emily Lau, for example, does not really understand women's issues and the structural obsta-cles working against women. She is an over-achiever and believes that if you work hard enough, you'll be able to make it." Echoes Chan Yuen-han, a vice-chair-man of the Hong Kong Federation of Trade Unions: "They have not done enough to address the needs of women at the lower level of society."

But they don't represent Hong Kong's typical female politician, either. That means someone like Baroness Lydia Dunn, who came to Legco in 1976 and to Exco in 1982. The product of a wealthy Shanghai family, she's held directorships in some of the colony's biggest companies, among them Swire Pacific and Hongkong Bank. As a member of the pro-British elite that has traditionally dominated local politics, Dunn is considered more an ally of the government than a critic.

"She is of a different age and generation from contemporary democrats like Loh, Wu and Lau," says Jane Lee, a senior lecturer in the Depart-ment of Public and Social Administration at City Polytechnic.

Perhaps it's that very contrast, in addition to their audacious propo-sals, that have made Lau, Loh and Wu so popular: A recent public-opinion poll ranked Lau Hong Kong's best-liked poli-tician, and Loh a close second. Popularity may not count for much after 1997, though: Beijing has little use for activist, pro-democracy types, and the three are already being cold-shouldered by the colony's growing pro-Beijing camp.

Lau and Loh vow to remain in politics, but Wu has declined to run in this year's Legco election. "I did not plan to have a political career," she says. "I've always had a busy career" as a lawyer.

Cheung of Chinese University hopes other women will step up to fill the gap. "Women's voices need to be heard," she says. "In the past, we have relied on the benevolence of the government to take care of the needs of women. But Hong Kong is being politicized. We need more female politicians who understand the needs of women." ■

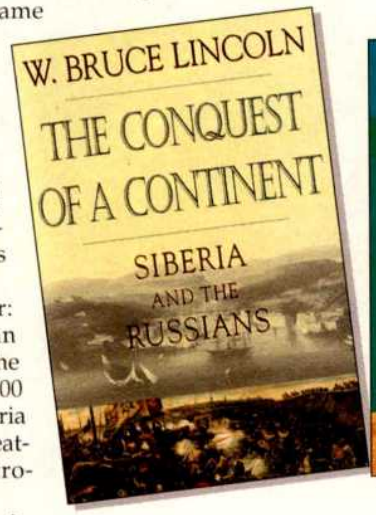
Louise do Rosario is a REVIEW correspondent in Hong Kong.

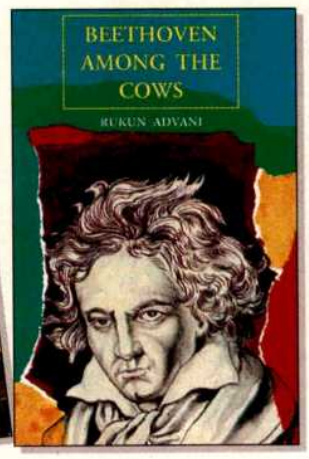
Russia's Cold Dump

The Conquest of a Continent: Siberia and the Russians *by W. Bruce Lincoln.*
Random House, New York, NY 10022. $30.

Don't look for light moments in W. Bruce Lincoln's *The Conquest of a Continent*. This history of Siberia is a grim recounting of exploitation and genocide in a land that has promised opportunity but more often provided misery for its inhabitants.

In his account of Siberia's last 800 years, Lincoln, a research professor at Northern Illinois University, points an accusing finger at white Russians, who began spreading across the vast Siberian plains in the 16th century. Like the European settlers who disturbed the tranquil life patterns of native Americans beginning at roughly the same time, the Russians wreaked havoc on the land and its inhabitants, beginning a cycle of destruction based on greed and arrogance. Today, "a vast toxic rust belt of mines and metallurgical combines" lies across Siberia.





Writes the author: "Draining one Siberian resource after another, the Russians over the next 400 years would turn Siberia into one of history's greatest ecological catastrophes."

Not even Siberia's prize jewel, Lake Baikal, escaped harm during the Soviet Union's drive to industrialize. Driven by national-security interests, Soviet planners built cellulose plants on the lake's southern shore. They have spilled thousands of tons of untreated waste into the lake, threatening a thousand species of animals and plants that inhabit the lake, more than half of them unique. Only the lake's massive size has saved it.

Casting a shadow over any encouraging signs in Siberia's history — the region's natural beauty or the occasional enlightened leader in the last century — is the region's dark legacy as the death chamber for millions who suffered in Tsarist and, later, Soviet labour camps. Because of a chronic manpower shortage, prison labour was used to develop the region until the 1950s. And because state goals have long taken precedence over living standards, even today in Russia, workers in Siberia's oil-rich north are forced to live in shacks and trailers without reliable supplies of running water or electricity.

The Conquest of Siberia is written in spurts. There are 52 chapters, averaging eight pages each, which cover such varied topics as the invasion of the Mongol hordes, the courageous women who followed their husbands into Siberian exile and the construction of the Trans-Siberian railway. Lincoln also draws on 19th-century journalist George Kennan and communist activist Jack Scott, who came away embittered men after stays in Russia.

Returning from a trip in 1885, Kennan was horrified at the inhuman conditions he observed in Russia's prison system. The chapter on Scott, who as a young communist went to Russia to help with the construction of the Magnitogorsk Metallurgical Plant in the 1930s, is a denunciation of industrialization at the cost of human dignity.

While such diverse information makes the book a useful research tool for the novice on Siberia, *The Conquest of a Continent* sheds little new light on a region which the author claims defines Russia's greatness. Though Lincoln takes a fascinating look at local ethnic groups, he offers little analysis of what history and ethnicity mean to the "new" Russia.

A historian with nine books on Russian and Soviet history to his credit, Lincoln fails to pursue such issues as the unique identity of Siberians and the future of the region. He touches on the hardiness and independence that sets Siberians apart from their European countrymen, and hints at historical antecedents for an independent Siberia, but neither theme is developed in the concluding section entitled "Siberia's Modern Age."

Lincoln ended his research in 1992. Since then, momentous changes have been taking place in Siberia. Sharply declining living standards have set off an exodus from northern communities that are no longer reliably supplied by the central government. More and more, development of the region's oil and gas hinges on foreign investors.

Growing trade ties with China have brought Siberia closer to Asia than ever before, but there is a palpable fear about the tens of thousands of Chinese now living in Siberia's border areas. A growing ecology movement is working with international organizations to stem the rape of the region's resources.

Furthermore, the desire for independence has been stifled by the realization that the region is an inseparable part of Russia. Economic autonomy has increased, particularly in places like diamond-rich Sakha Republic, but it continues to be dependent on food imports from other parts of Russia. In fact, 70 years of Sovietization leave doubts about the issue of a unique Siberian identity.

Regrettably, Lincoln is so involved in chronicling the past that he fails to look to the future. ■ **Jeffrey Lilley**

Jeffrey Lilley is a writer who was based recently in Moscow.

Cocky Bull

Beethoven Among the Cows
by Rukun Advani.
Ravi Dayal, 51E Sujan Singh Park, New Delhi.
125 rupees.

There's a *New Yorker* book reviewer who marks passages in books with coloured paper clips — yellow for humour and so on. Using this method, *Beethoven Among the Cows* would fairly bristle with yellow clips, for it's a brilliantly funny novel that makes one laugh aloud.

In this loosely strung series of episodes, Rukun Advani mixes irreverence with irrelevance, a strong sense of the bizarre with an affection for the grotesque. His irreverence extends from a *Hindu*-eating cow (the newspaper, not the religious adherent) to the pantheon of literary gods. Blake's tiger of fearful symmetry appears in a different avatar and Browning's dictum about a man's reach exceeding his grasp is described as "a bit of inane poetic sagacity."

The novel revolves around the lives of two unnamed brothers (the author is one of them). The brother looks like Zeus and is much given to the tragic. Advani himself is consistently self-deprecatory, at

pains to stress his perpetual identity crisis. A host of other characters, including a doctor who effects sex changes and invents an erection machine, make brief appearances. But stellar roles are played by Elizabeth Taylor and Raisa and Mikhail Gorbachev in Advani's foray into magic realism. In this and in his sheer ability to write, Advani approaches Salman Rushdie and I. Allan Sealy in the galaxy of new Indian writers.

Advani achieves his comic effects through a judicious misuse of quotations out of context. He refers to a cinema audience "waiting for burnished gold to barge Cleopatra into view." And when he imagines feeding a detested rival to a tiger, he piously observes that "they also serve who only lie as bait."

Juggling words with dexterity, Advani switches their meaning in mid-sentence. Helen of Troy is transformed into a star dancer in Hindi films, and Hemingway's shark metamorphoses into a Delhi conman. And there are such observations as "Hamlet's problem with suicide wasn't that it was unaesthetic but that he didn't have an anaesthetic."

All this arises out of formidable literary erudition. From the first paragraph, the ear is seduced with echoes of everything one has ever read — all the poems learned at school, the Bible and, in particular, Shakespeare.

In *Beethoven*'s funniest chapter, the author takes a swipe at the Eng. Lit. establishment, personified by Prof. Lavatri Alltheorie, "post-modernist theoretician, boa deconstructor, discourse analyst, post-structuralist, feminist historian of subalternity, colonialism and gender." The law that governs her is: "Incredible Articulation + Incredible Incomprehensibility = Incredible Salary." It's a virtuoso spoof of the English-teaching fraternity.

Throughout the book, beneath all the levity, there is an undercurrent of disillusionment, of alienation from India. Reading Advani, Salinger's *Catcher in the Rye* comes to mind. In the last chapter, for example, written after the Ayodhya incident, "when politics tore venomously into religion," he writes: "This time it was the Babri Masjid, a mosque which had stood so harmlessly through the centuries that people didn't even know it was there. Then the politicians twisted it out of obscurity and began dressing it up with holiness like a cow till fanatics in saffron pulled it down with tridents. Soon they were spreading like locusts toward other monuments."

Weighed down with a message, the ending mars the book artistically. But it voices the anguish in the minds of countless Indians. ■ **Carmen Kagal**

Carmen Kagal is a writer based in Bombay.

The Pacific Century by William McGurn

Back to the Future

Saztec Philippines takes a byte out of life

Manila

When Alan Fraser tells prospective customers they come third, they're a little taken aback. Most companies, after all, give at least lip service to the idea that the customer comes first. But at Saztec Philippines, a database conversion company, the priorities are clear. First comes service to God. Next come Saztec employees. Only then comes the customer.

Not that Fraser is running some kind of seminary. "What we mean is a commitment, first, to doing the right thing — no cutting corners or going around the laws — and, second, to doing right by our employees," says Fraser, sipping a coffee here in Saztec's 7,000-square metre office just up the road from the airport. "And I think that this kind of commitment makes customers feel more secure about the environment they're doing business in." All software used here, for example, is fully licensed.

WILLIAM McGURN

People matter.

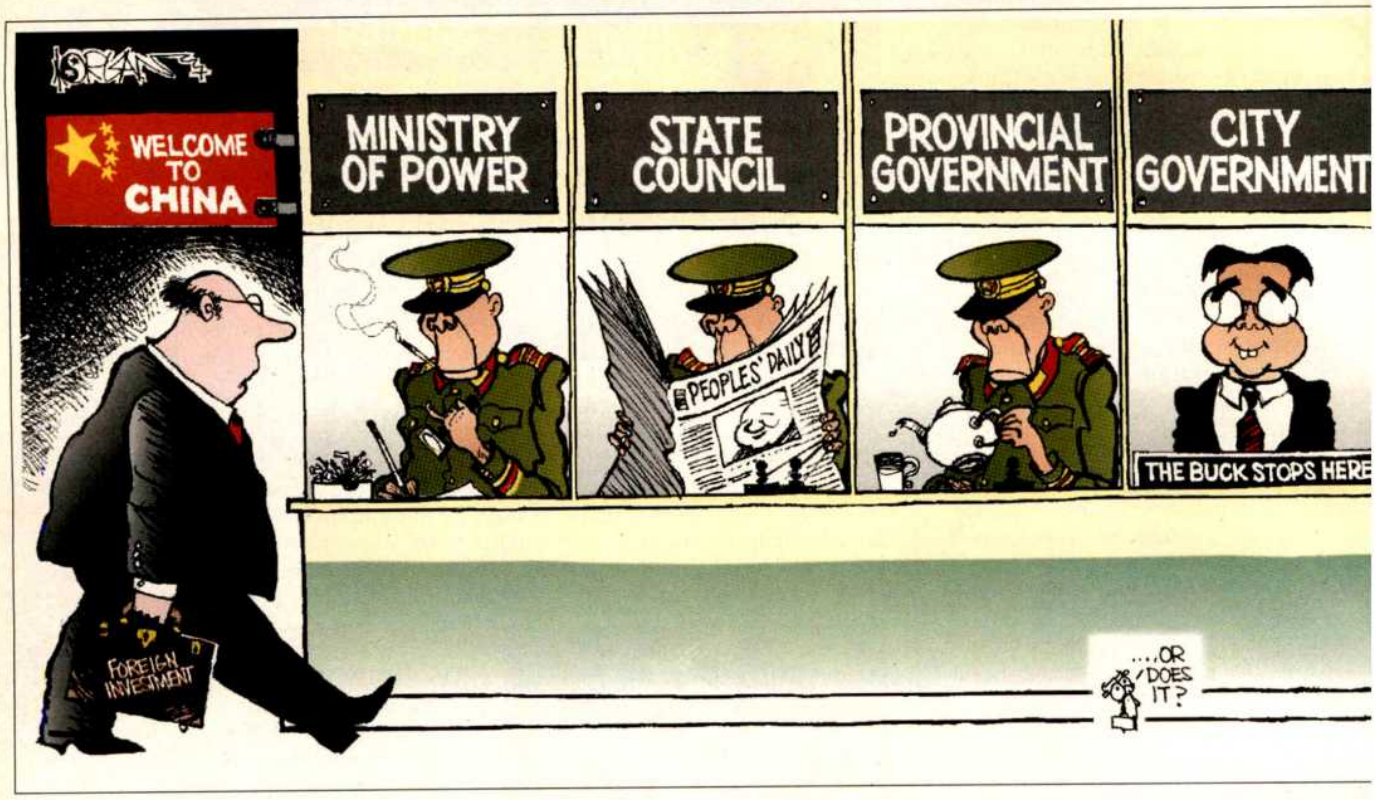
Saztec's roots in the Philippines go back to 1973, when Fraser arrived at Manila's airport with a cardboard box stuffed with paper files data he needed put on computer. Today Saztec Philippines has more than 1,000 employees and expects to do $8.5 million in business for 1995. Lots of companies, of course, do data processing in developing countries where labour costs are low. But what sets Saztec apart is a determination to keep ratcheting itself up on the value-added side of the information business.

Already this has changed the company. When Saztec Philippines started up in 1980, it was as a subsidiary of the U.S.-based Saztec International, which operated as a middleman. In 1982 Fraser sold his interest in the parent company, and today Saztec Philippines goes after customers from all over the world, everyone from Arthur Andersen and the Asian Development Bank to the Swiss National Library.

The product too has changed. At first it was simple data entry, such as library catalogues. These days, however, Saztec helps add intelligence (and value) to raw data; this can mean integrating graphs, photos and text or laying out intricate maps with layers of information. "We've gone from telephone books to telephone systems," says Fraser, noting that Saztec is now Asia's leading facility in AM/FM, or automated mapping/facilities management. Indeed, Saztec now farms simple data entry to a sister company in China.

This June Saztec expects to receive the coveted ISO 9000 rating from the Geneva-based International Standards Office. Keeping employees happy is a big part of the push for quality. For example, the lowliest data processor receives the same health care that Fraser does, and the company runs a foundation that trains underprivileged Filipinos (and pays them while they are training!) for company jobs. The subsidized employee supermarket ranks within the top 5,000 Philippine firms. Pay too is pretty good: Employees start at 4,000 pesos a month ($160), with bonuses for speed and quality that bring the median up to about 7,000 pesos — about four times average per capita income here.

But Fraser knows there is no standing still. When he first started up, Saztec was registered as a pioneer industry. Today there are more than two dozen rivals in the Philippines alone, and Fraser knows that even their competitive edge in AM/FM will be temporary. "Two years from now someone else here will be doing the same thing, and some will probably do it cheaper," he says. "If we're smart, we'll use that two years to move up to something else." ■



INVESTMENT

Not for the Faint-Hearted

A string of bad debts, soured deals and broken contracts have cast a shadow on the China play. But some analysts say the perceived risks are overblown.

By Henny Sender in Hong Kong

Michael Pralle, Hong Kong-based president of GE Capital East Asia, a financial-services subsidiary of General Electric, spent most of December reassuring his jittery bosses back at headquarters in the United States that China was still a safe place to invest.

"Events have had a powerful impact on our senior people's perception of China," says Pralle. "There are no contracts; no rule of law. They ask: 'Are these people out to screw us? Should we reassess?'"

For now Pralle is telling his bosses to sit tight. "We've already made our bets," he says. "The recent events are of symbolic significance, not real significance."

Pralle isn't the only one receiving frantic telephone calls from home. Since Lehman Brothers filed suit in New York on November 15 against two Chinese state enterprises to recover losses in currency transactions it claims amount to $100 million, firms from General Electric to U.S. investment bank Goldman Sachs are taking a long hard look at their strategies in China.

Now the China fever has turned to a damp chill. Businessmen are starting to talk openly about the risks of doing business on the mainland and a flurry of publicity about past and present bad debts and soured deals is making investors edgy. After fast-food giant McDonald's was ordered to vacate its prime spot in Beijing in November to make way for redevelopment, Standard & Poor's credit-rating agency warned that China's investment-grade rating could be at risk.

But to the extent that the surge of international enthusiasm for China was based on unrealistically high expectations, some reassessment may be healthy. And while China's promise has been overblown in the past, so too are the perceiv perils now, say some analysts.

"There was a naivete fuelled by ma ing false assumptions," says the head credit for one major U.S. investment ba in Hong Kong. In China, "a lot is driv by the political exigencies of the mome not economics, and will remain that w for a long time. All you can do is n down as much as possible and if it does work out, you shouldn't be surprised."

Indeed, one of the hardest things come by in China is certainty. "In Chi you don't know the rules," says Pral "In reality, the *Chinese* do not know t rules either. There are competing vie and factions. You are always relativ blind."

Such inconsistency is one reason w many large Japanese companies such Toyota Motor have moderated their vestments in China. "If you make a la investment, you require 10 years to ma a return on that investment," says Ak Yokoi, a board member at Toyota charge of Asian operations. "And if g ernment policy changes, you can't deci what investments to make.

The uncertainty is unlikely to disappear any time soon, but there are lessons to be learned. GE's strategy, for example, takes China's unpredictability as a fundamental premise. "Be flexible and be small," counsels Pralle. "We try to maximize the permissions we get and the places in which we operate so that when the pattern does become clearer, we'll be ready."

He might have added: Be realistic and learn from others' mistakes. About 30 Japanese and European joint-venture leasing companies have lost about $600 million over the last few years. Little hope remains of recovering the money. And even if the equipment these loans financed was well maintained, China lacks a secondary market for factory equipment and repossession is virtually unknown.

"They thought the business was low margin, low risk," notes Pralle. "In fact, it turned out to be low margin, high risk." For its part, GE plans to set up a construction-equipment rental business in which it will operate and maintain the equipment itself. In order to control its own balance sheet, GE says it will not enter into a joint venture with a local Chinese partner.

Another trouble spot is obtaining all the necessary approvals. Consider the fate of Lehman Brothers' toll-road project in Beijing. In that case, city officials were on a roadshow in the U.S. in November when they learned that the central government had pulled the plug on the $460 million project. The deal was designed to take advantage of financial reforms, which theoretically allow Chinese municipalities to raise money offshore to meet their infrastructure needs. Under the toll-road plan, a Hong Kong-based shell owned by a subsidiary of the Beijing government would borrow money from investors abroad and then channel revenues from the roads to repay creditors.

Ultimately, though, the deal came to symbolize the way in which outsiders can fall hostage to internecine struggles in Beijing. Both the Beijing City Government and bankers at Lehman Brothers spent weeks explaining the financing to senior officials. Lehman claims it was told by the Beijing municipal government that both the Beijing branch of the State Administration of Exchange Control and Zhu Rongji, vice-premier and head of the People's Bank of China, had approved the deal.

It became apparent, though, that not enough people had been consulted. The SAEC's head office objected, as did individuals in the State Council and the State Planning Commission, all of whom were alarmed at the prospect of cities raising money for projects on their own.

"The lesson," says one senior banker at Lehman in Hong Kong, "is that decision-making in China is by consensus, not majority rule. There is no clear delineation of authority; all kinds of people are allowed to be involved."

Morgan Stanley took a more blanket approach. When the American investment bank was raising money in November to build two power plants in Jiangsu province, it tried to talk to anyone who might have even a remote interest in the project. It was especially careful to court the People's Bank of China.

"We sat down every week with them," says a Morgan Stanley executive in Hong Kong. "We talked to people who were so junior they didn't have name cards. It is important to keep regulators informed, given that they think the foreigners are out to lure the Chinese."

Perhaps the key imperative is to monitor exposure carefully. Last year, Goldman Sachs discovered a Shanghai-based subsidiary of China International Trust & Investment Corp. owed it $10 million for commodities trades. Goldman took immediate action to recover the money. Says one Goldman executive: "We camped out on Citic's doorstep for three days until we got it."

It isn't as if Chinese entities never make good on their debts. In 1992, for example, the People's Construction Bank of China lost $80 million on foreign currency trades but settled with counterparties, according to Owen Nee, a partner at Coudert Brothers law firm in Hong Kong.

Indeed, some analysts say the investment climate is actually getting better. "Events of the last few weeks have been very exaggerated," says Anthony Russell, head of China Services at the Hongkong & Shanghai Banking Corp. "The last time there was a credit squeeze in China [in 1989], there were a lot more problems. Lots of letters of credit weren't being honoured. It is being handled much better this time." ■

WILL BURGESS/REUTER

McDonald's stands alone on a central Beijing street corner as surrounding buildings are demolished.

INVESTMENT

Back to Basics

Goldman Sachs resets its course in Asia

By Henny Sender in Hong Kong

It was 1993, and for staffers joining Goldman Sachs in Hong Kong, it was a magical time. The days were heady enough: They'd pick up the phone to hear some of the richest and most legendary businessmen of Asia, including Malaysian tycoon Robert Kuok and Hong Kong magnate Li Ka-shing, on the line.

Evenings were even more memorable. Raucous mahjong games lasted far into the night at the house of Moses Tsang, the head of Goldman's Hong Kong office. Elaborate dinner parties were hosted by T.T. Tsui, Goldman's partner in New China Hong Kong Group, at his palatial home.

The Goldman people thought of Tsui as the Hong Kong businessman who subsidized the Chinese gallery at the Victoria and Albert Museum in London and had his picture taken at the opening with Prince Charles. They knew little of Tsui's background. But they did know they had to be careful when walking through the corridors of his mansion, lest they trip over and damage one of the Tang Dynasty horses from Tsui's priceless menagerie.

Goldman, intoxicated by Asia, traded its conservative ways for the freewheeling style of its Hong Kong leader — Tsang. Two years later, it's emerging somewhat bruised; its Asia earnings do not cover the costs of its opulent Hong Kong office and 400 staff. Competitors estimate the gap in the tens of millions of dollars.

Now Goldman is shedding the bold style it only recently adopted. In November, it announced that Canadian banker Mark Evans would replace trader Tsang at the Hong Kong helm. That and related moves, done with much less fanfare than

the firm's initial build-up, provide sobering lessons about the unrealistic hopes that many newcomers harbour for China business.

To be sure, part of the about-face reflects harder times in New York. In the year to November 1993, Goldman's pretax earnings came to some $2.5 billion. Such profit makes the most ambitious dreams affordable. But in 1994, earnings fell to $500 million. Numerous lay-offs and retirements ensued, including some in Hong Kong.

It's an abrupt change for a bank that until a few months ago was pouring capital into Hong Kong. The Asia strategy was launched several years ago by former Goldman chiefs Robert Rubin (the newly named United States Treasury Secretary), and Stephen Friedman, who is now retired. The partners decided to commit as much as $1 billion for investment in Asia.

The bank's splashy arrival, build-up and deal flow in Hong Kong came as bold departures from its usual risk-averse style. Most investment banks begin cautiously in unfamiliar places: They deal with familiar clients, such as advising companies from their home country on an Asian merger candidate. But Goldman had decided to be the premier banker to the Overseas Chinese. In return for a cut of the best deals, Goldman would come up with the money to finance them.

The bank was Li Ka-shing's silent partner in the huge property project known as Oriental Plaza on Wangfujing, near Tiananmen Square. The firm also had stakes in industrial companies, from a diesel-engine manufacturer that it was able to get listed in New York to an ice-cream maker in Shanghai. And while its competitors threw envious glances at American International Group for its insurance licence in Shanghai, Goldman quietly took a stake in Guangzhou-based Pingan Insurance.

The deals, however, didn't always go smoothly. In one instance, Goldman worked for months to encourage overseas investors to take up to a $180 million private placement for a 30% stake in power plants in northeastern Shandong province. (Its partner in this deal was China Venturetech Investment, a firm whose principal shareholders were the Ministry of Finance and the State Science and Technology Commission.) Then Premier Li Peng pulled the deal, claiming once more that foreigners were making too much money off China. China Venturetech, it seemed, did not have the clout its shareholders suggested.

But a few weeks later, Shandong officials again contacted Goldman. They suggested that the power plants be included in a new company that would be among those in the second batch of Chinese firms to be listed outside the country. Goldman was back in business with the mandate to list Shandong International, one of the largest companies of the 22 — at a time when power plays were among the most attractive of the so-called H shares.

In other cases, there were no disasters but many disappointments. Tsui's New China Hong Kong brought little business to Goldman. Moreover, the bank's blue-blood reputation in New York and its connections in Asia weren't enough to secure it the underwriting business it sought. Some within the bank were also uneasy about the partnerships with Tsui and Venturetech. Staffers especially were dis-

T.T. Tsui: the bold style's not for Goldman.

mayed by what they considered a lack of follow-through on deals brokered with their Chinese partners.

Still, Goldman only began to question its rosy assumptions about China in late 1994. In December, when the property project in Beijing — described internally as the project from Jupiter because of its size — was put on hold, it seemed even the influential Li Ka-shing couldn't secure a watertight deal in China.

When Goldman executives did the hard calculations, it became evident that the underwriting business was never going to pay the Hong Kong branch's bills. It wasn't enough that Goldman acted as lead or co-lead manager in 11 bond issues for Chinese companies in 1993, four in 1994 and also won some of the most prestigious equity mandates in 1994, such as the New York listing for China Southern Airlines. The competition was too brutal, the margins too thin.

"We expanded so much," says one Goldman staffer. "But was the business really coming through? You can't really devote resources on the basis of potentia business. The upside potential takes time.

The firm's decision to change cours became apparent in November, when announced that Tsang would retire an be replaced as senior partner by the 3 year-old Evans.

"The difference between Moses an Mark is the difference between 1993 an 1994," says one executive director. Tsan who grew up on Goldman's fixed-incom side, is the typical Hong Kong trader: fast talker and even faster mover. Evan by contrast, is a banker who has a pa sion for collecting information and an lyzing it down to the minutest d tail.

Since Evans has taken ove Goldman has been shifting gear turning itself into a Hong Kong r incarnation of its New York identi and embracing the firm's tradition more conservative approach. Th means less emphasis on China an more emphasis on "reputation risk" — defined by one partner the "If it would make an emba rassing headline in *The New Yo Times*, we don't do it" way of opera ing.

"I have always said that Chi isn't Asia," Evans stresses. "W should have eggs in many baskets say that internally more than a other message."

The old relationships are gone, i cluding the deals Tsang put togeth with Tsui and Venturetech. "I s Venturetech as a period piece," e plains the executive director. "It w something we had to go through a time when we couldn't even cro the street in China without someo holding our hand. It was like our bl period."

The business Goldman will do now more an extension of its New York o erations. For example, the bank has d cided that Asian project finance promot by Tsang isn't the most sensible use of resources. "We couldn't get our han around it," confesses one staffer. "It is t customized, like a handmade car."

Rather than take a stake in a Chine power company, as it had planned Shandong before Li Peng objected, Gol man will serve as financial adviser to G many's Daimler-Benz on the high-spe rail project it is bidding for in Taiw (Goldman handled the company's N York listing.)

Goldman's travails reflect those of industry in transition as much as the ill sions of a firm seeing only promise a losing sight of the perils of doing bu ness on unfamiliar turf. Ultimately, a m sober Goldman may represent much m of a threat to competitors than an ov ambitious one.

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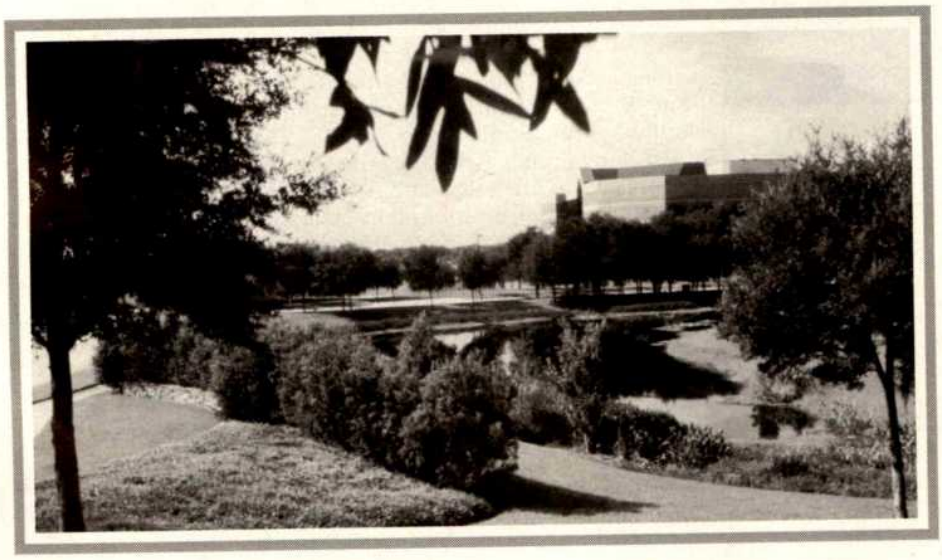

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INVESTMENT

The In Crowd

Asia is no passing fad for U.S. investors

By Nigel Holloway in New York

David Katz is not one to gamble with his money. A medical researcher from Chicago, he decided to diversify his investment portfolio two years ago. "I didn't want to put all of my money in the U.S. market," he says.

So he searched a computer database for mutual funds that outperformed other funds investing abroad in six of the previous eight quarters and in four out of five years. Five funds met the criteria. Katz picked Acorn International run by Wanger Asset Management in Chicago, and Babson Stewart Ivory International in Edinburgh, Scotland.

The two funds have a broad portfolio of European, Australian and Asian stocks as well as equities from other emerging markets. "One of the main attractions of these funds is that they have Asian stocks," says Katz. "I have a general perception that Asia is a very rapidly expanding economy and I want to have some exposure to that. But it's a market that I'm not familiar with." (Total return of Acorn was down 4.3% for 1994, but Babson squeaked through with a 0.7% return.)

Katz remains unfazed by the dismal performance of many Asian stockmarkets in 1994. And that attitude is typical of a new investment mentality that has taken hold in the United States: Though many Americans are still just dipping their toes into foreign waters, they're doing so with plans for a lengthy immersion.

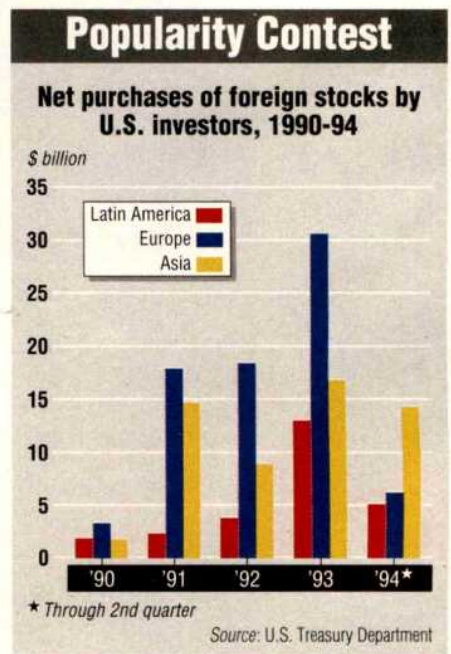
"The long-term trend is of fairly significant interest in Asian markets," says David Strongin, director of international finance at the Securities Industry Association in New York, which represents brokerages. "I don't think we're at a turning point. The opportunities overseas are still too great."

The potential impact of U.S. investors on Asian capital markets is considerable. America has by far the largest pool of savings under management — about $7.5 trillion at the end of last year held by insurers, pension plans and mutual funds. But at the moment, most of the money is invested in the U.S.

As more American funds move into Asia, they will do more than broaden and deepen markets in the region. Their managers will probably help bring Asian bourses into line with international standards for disclosure and force investment practices based more on economic fundamentals than on gossip-driven speculation. U.S. investors, used to a more highly regulated home market, are probably the most demanding when it comes to requesting information from issuers.

Take the 10-year-old Korea Fund run by Scudder, Stevens & Clark of New York. "We visit every company we own once a year," says Nicholas Bratt, director of Scudder's global equity group. "As a result, we've softened up managers to analysts' inquiries."

The vote of confidence in Asia from these and other investors comes even as some of the best-known U.S. funds putting money in Asia post their first net outflows after the binge year of 1993. For instance, Colorado-based Invesco's $255 million Pacific Basin fund saw a $50 million net outflow in November; but that slackened to $9 million from December 1-27. At G.T. Global's $529 million New Pacific fund, withdrawals outpaced purchases by $60 million in November. Figures for December were not available.



Steadily rising U.S. interest rates have temporarily dampened the enthusiasm of American investors for Asian equities. Many piled into Pacific Rim stockmarkets in the second half of 1993 when share prices in the region were at historic highs. But the fervour started to wane in the second quarter of 1994, when net purchases of Asian equities by Americans fell to $5.1 billion from their record level of $9.3 bil-

ion in the previous quarter, according to he U.S. Treasury Department.

Things could be worse, though. 'Redemptions of Asian funds have not come through aggressively," says Michael Bugel, head of the Far East sales desk of James Capel in New York. "They'll be back; they're just taking a breather at the moment."

The long-term trend of steadily rising investment in Asia appears irreversible, according to interviews with two dozen investors large and small across America. Asian equities will remain at or near the top of the shopping list for U.S. investors as they diversify their portfolios.

"Our view is that [Asian equities] are the most exciting opportunity for returns over the next 10 years," says Steve Norwitz of fund managers T. Rowe Price in Baltimore. Assets under management in its New Asia fund grew rapidly in 1993, but have since declined somewhat: they totalled $2 billion as of December 27, 10% less than at the end of 1993. The price per share fell by 19% over the same period.

Moreover, potential for future growth appears boundless. An IMF survey in 1991 of 100 leading funds in the U.S. and Europe showed that only 3.4% of American assets (which then totalled $4.5 trillion) were invested in foreign equities. By comparison, European funds invested 9.7% of total assets of $3.7 trillion abroad. If the U.S. funds raised their ratio of foreign stocks to European levels, their holdings would rise by $285 billion. The increase would be nearly equal to the combined market capitalization of the Philippine, Indonesian and Thai stockmarkets.

To be sure, the U.S has arrived late at the party. European funds, after all, have been buying foreign equities since the 19th century. "American investors are finally discovering the fact that two thirds of the world's corporate-earning power is outside the U.S.," says William Donaldson, chairman of the New York Stock Exchange.

Sheer parochialism was the main reason why U.S. investors were so slow to look overseas. They continued to allocate their portfolios as if the U.S. stockmarket comprised two thirds of world equity capitalization, which ceased to be the case more than 15 years ago. The U.S. share currently is closer to one third.

They are now making up for lost time. The number of international equity funds doubled to 268 between January 1993 and October 1994, and the total amount of net assets rose five-fold to $107 billion.

Most of those funds can invest in more than one region, and Asia faces stiff competition from Latin America. Figures from the U.S. Treasury Department, however, show Asia as the regional favourite after Europe. Overall, American investors made net purchases of $31.3 billion of equities in Asia in the 18 months to June 1994 (*see chart*). This compares with only $18.4 billion invested in Latin America in the same period and $36.9 billion in Europe. But the figures converge if large stockmarkets such as the Tokyo and London exchanges are excluded.

American investors vary greatly in their degree of sophistication. At one extreme is the technical wizardry of investment banks such as Salomon Brothers. The firm is selling financial products that can offer institutions exposure to, say, the Thai market without customers ever buying a share, through instruments such as index swaps.

In a case such as this, Salomon undertakes to pay the institution a return based on the performance of the Thai stock index over a certain period and charges the client an interest rate based on, say, the London interbank offered rate plus a premium. In this way, the client takes a bet on the Thai stock index and Salomon puts to work the large amount of stocks it holds on its own account.

Spread Sheet

California Public Employees Retirement System's Asian portfolio
(including American Depositary Receipts)

	$ million
Japan	3,900
Hong Kong	402
Malaysia	256
Singapore	153
Thailand	89
Philippines	62
South Korea	60
Indonesia	49
Taiwan	10
China	2.5*
Total in Asia	4,984
Total overseas equity investment *(including Asia)*	10,500
Total U.S. investment	28,100

Note: As of September 30, 1994
* All in Shandong Huaneng Power Development
Source: Calpers

REVIEW GRAPHIC: RINGO CHUNG

"Asia's probably the place where you'll see hedging techniques introduced quickly," says Salomon's Eric Sorensen.

At the other extreme are the novices. Thomas McDonnell, who handles Hongkong Telecom's investor relations in the U.S., remembers contacting an insurance company in the midwestern state of Iowa that held a sizable stake in the firm. He wondered whether they would like to meet him. "No," came the reply. "We wouldn't know what to ask you."

Slick or not, American portfolio investors will probably have a stabilizing effect on Asian stockmarkets, say many brokers and fund managers. "Americans are longer-term investors than those in Britain and Hong Kong, because U.S. regulations are more stringent. Fiduciary responsibility is taken more seriously," says Rajeev Bhaman, who sells Asian stocks for BZW Securities in New York.

But a stronger reason may be sheer lack of manpower. Even hedge funds, which have gained notoriety recently for their volatility, seem to maintain their Asian equity positions for considerable periods. The managing director of one very large U.S. hedge fund says he holds Asian stocks for nine months to four years. "We don't tend to be in and out every month; we don't have enough people to do that," he says.

The $85 billion California Public Employees Retirement System, the largest public pension in the U.S., takes an even longer view. Some 60% of the $10.5 billion invested in overseas equities passively tracks the Morgan Stanley Capital International index for Europe, Australasia and the Far East. That is done by buying a basket of stocks included in the index and holding them indefinitely.

Even Invesco, which saw a large outflow from its Pacific Basin fund in November, was not forced to sell equities to meet redemptions. Instead, it met obligations out of cash holdings.

U.S. institutional investors "hesitate to call short-term swings in foreign stockmarkets where they don't feel they have an information advantage over the locals," says Thomas Franco, president of Broadgate Consultants. This has important implications for Asian issuers, he adds, because the companies that build up a relationship of trust with U.S. investors will find a more receptive audience in America than ones that don't.

Franco says Hongkong Telecom, Singapore Airlines, China Light & Power and Cathay Pacific have been particularly good at keeping U.S. investors informed. "The trust factor can really work to an issuer's advantage, because if a problem arises at the company, it doesn't necessarily result in a knee-jerk response from shareholders," he says.

U.S. stockbrokerage Merrill Lynch has found that another way to build a stable shareholder base in the U.S. is to sell Asian equities to fund managers other than those specializing in the region. When Edward Higgins, a Merrill Lynch director, took the $1 billion Indosat initial public offering on a roadshow in the U.S. in September, he invited fund managers who wanted exposure to, say, telecoms stocks but knew little about Indonesia.

Higgins and the issuers had prepared the ground in July when Indonesian Finance Minister Mar'ie Muhammad made a series of presentations in the U.S. about the state of the economy. In the end, over 200 U.S. institutional investors took up the issue. ■

TECHNOLOGY

Spoiled for Choice

Game wars heat up in Japan

By Emily Thornton in Tokyo

It used to be easy to get a Japanese salaryman to spend hours feeding yen into a pachinko machine. Gluing a student to a videogame screen was even easier.

But nowadays it takes a lot more to convince consumers to hang out all day in a pachinko hall or buy another $400 home-videogame machine. Players want games that stir their imaginations — flying them to magical islands, marching them through enchanted forests or whizzing them to the tops of towering skyscrapers to fight with kickboxers.

Once unstoppable as their sales climbed even during Japan's worst recession since World War II, videogame and pachinko makers are now struggling to capture the wallets of Japan's discerning game players. Says Masanori Taniguchi, a manager at pachinko maker Sankyo: "We have to produce something that has never been seen before."

The stakes are certainly high. With 18,000 pachinko halls, Japanese pachinko has become a $175 billion business, according to the Leisure Development Centre, a think-tank in Tokyo. Moreover, about 50% of all Japanese households own videogame machines, making it a $6.6 billion industry in Japan.

But sales are sluggish and this year's battle to win players will be the fiercest ever. Videogame-maker Nintendo is trying to protect its virtual monopoly over Japan's home-videogame market against rivals Sega Enterprises, NEC, Matsushita Electric and newcomer Sony, which have all come out with next-generation videogame players. The new 32-bit machines offer twice the processing power of the older 16-bit units and have more realistic visuals and better sound. What's more, personal computers with equally good game software are beginning to challenge stand-alone game machines.

Already Nintendo and Sega, the world's two largest videogame makers, have revised downward their projections for the year ending on March 31. Nintendo's pre-tax profits for the six months ended September 30 fell 16% to ¥51 billion ($508 million) on a 36% drop in domestic sales to ¥166 billion. Sega's domestic sales for the same period plunged 24% to ¥151 billion.

Pachinko giants Sankyo and Heiwa Corp. are suffering too. Nikko Research Centre in Tokyo, the research arm of Nikko Securities, predicts Heiwa's sales will fall 27% to ¥81 billion in the year ending on March 31, while Sankyo's will dip to ¥94.5 billion from ¥94.6 billion. Overall, Nikko estimates the country's 19 pachinko makers' sales will drop 28% to 2.5 million machines in 1994.

One reason behind the downturn in the pachinko industry was a decision in 1993 to make machines that allow people to play with only one ball at a time. The move was designed to clamp down on winnings that could climb as high as $1,000 a game. But to offset smaller prize money, pachinko makers now realize they must jazz up their machines with better video graphics and more imaginative themes if they are to draw in players.

Pachinko and videogame makers have been hit by sluggish sales.

"Companies with the ability to develop more amusing pachinko machines will gradually be separated from those that can't," says Keiichiro Tanaka, an analyst at Yamaichi Research Institute in Tokyo.

Videogame-machine makers, meanwhile, are trying to come up with the next great game by boosting memory capabilities and the number of polygons, or specks of colour that make games look three-dimensional. Says Masahiro Ono, an analyst at Yamaichi Research Institute: "The 16-bit game machines like [Nintendo's] Super Famicom or [Sega's] Mega Drive have peaked out."

Although Nintendo plans to come out with its own 32-bit machine in April, it expects to outdo its competitors with a 64-bit videogame machine by 1996. In the meantime, Nintendo will continue to sell the 16-bit version of its Super Famicom system for about ¥14,000 (about half the price of its competitors' 32-bit machines).

Most analysts say Nintendo's toughest competition will come from Sega, which already dominates Japan's 32-bit arcade videogame industry. Sega plans to transfer its arcade machines into versions that can be played at home on the Sega Saturn and boost its share of Japan's home-videogame market to 70% from less than 10% by March 1996. Sega has already developed 44 software games for its 32-bit Sega Saturn and plans to raise that to 100 by the end of the year.

But Sega and Nintendo will have to compete with Japan's computer-electronics firms NEC, Matsushita and Sony, which have also come out with 32-bit machines. Sony's new PlayStation has images that change in real time at a rate of 60 fields per second, the same as TV.

Still, some question whether even next-generation game machines will last that long because of competition from personal computers. Now electronics firms are developing PCs that not only offer games but even have TV. "People are saying 'Why do I want a machine that only does one thing?'" says Mac Jeffrey, a spokesman for IBM Asia-Pacific.

But videogame-machine makers believe they still have time before they will feel the pressure from their PC rivals. Less than 11 million PCs are in use in Japan compared with nearly 75 million in the United States, according to International Data Corp., an American marketing and research firm. Says Sega's product manager Hideki Okamura: "By our estimates, we still have four years until we will need to develop PC [game] software for Japan."

Until then, Sega plans to add more functions to its Sega Saturn. Eventually consumers will be able to use the machine to sing karaoke or even go catalogue shopping, company executives say.

Indeed, consumers could get confused by the offerings. "Every day there are one or two new titles," says Hiroshi Imanishi, a managing director at Nintendo.

The trick is figuring out which ones will last. "We have come to buy all of the new videogame systems that have been released this fall," says one salaryman, who with his friend bought Sony's $398 PlayStation before Christmas. "We just don't know which one will survive." ■

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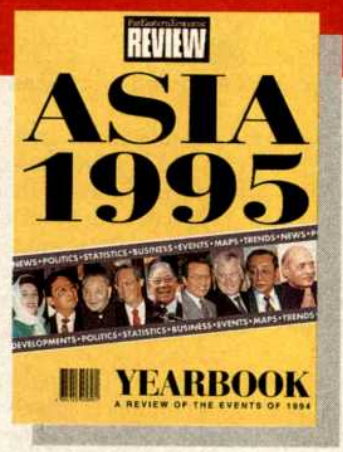

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TECHNOLOGY

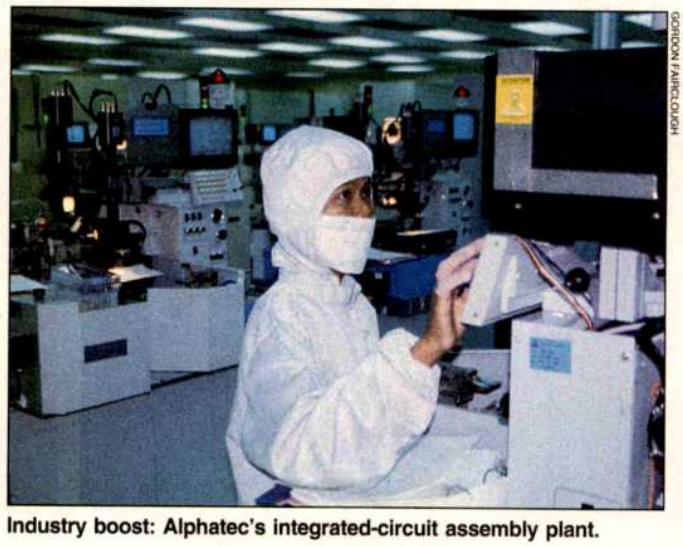
Chip Magnet

Thailand is set to enter the silicon-wafer business

By Gordon Fairclough in Bangkok

In a field in Chachoengsao province on the eastern edge of Bangkok, Charn Uswachoke is planting the seeds of revolution. It is here that Charn, the chief executive officer of Alphatec Electronics, plans to build a silicon-wafer foundry, Thailand's first.

The $1 billion plant won't be very large. But it could transform the Thai electronics industry when it starts production in early 1996. "It's going to be a giant step for the country, not just our company," Charn says. "A lot of design houses are going to be set up. The country will be on to the next phase" in the development of its electronics industry.



GORDON FAIRCLOUGH

Industry boost: Alphatec's integrated-circuit assembly plant.

That, at least, is what many Thai technocrats hope. The design and fabrication of silicon wafers and the intricate microscopic circuitry imprinted on them is at the heart of the integrated-circuit business. Manufacture of this key component will likely make Thailand a more attractive place for foreign companies to subcontract integrated-circuit manufacturing and assembly.

The biggest beneficiary will be Alphatec. Thailand's largest integrated-circuit assembler, the firm churns out nearly 20 million integrated-circuits a month, mostly for American companies. Alphatec earned pre-tax profits of 267.8 million baht ($10.7 million) on sales of 8.1 billion baht in 1993.

Charn reckons that by having its own domestic wafer supplier, Alphatec will save its customers time and money. The way things work now, companies that design integrated circuits often have their wafers cast in Japan, Taiwan or South Korea. The silicon chips are then sent to factories in Thailand, Malaysia and the Philippines, where they are mounted on frames, connected to lead wires, packaged and tested. Performing all of these operations in the same country should cut waiting times to about three weeks from three months, Charn says. Transportation costs will be lower, too.

The silicon-wafer foundry is just part of Charn's expansion programme. In 1993, Alphatec bought Indy Electronics, an ailing American integrated-circuit assembler, and has set about turning it into a specialty semiconductor manufacturer. Last year, Charn bought AT&T's telecoms-equipment manufacturing operation in Thailand and renamed it Alphatel. And on December 20, Alphatec unveiled plans to launch a joint venture with Shanghai Hua Xu Microelectronics, a state-owned firm, to assemble, package and test integrated circuits in Shanghai.

Alphatec Electronics of Shanghai will specialize in high-volume, relatively low-technology chips for use primarily in consumer electronics. The Shanghai operation will allow Alphatec better access to the China market and provide a hedge against rising wages in Thailand. "In a few years, for some of the conventional integrated-circuit packages, it will be too expensive to do them here," says one Bangkok-based Alphatec executive. "So we're going to move them to Shanghai and concentrate on high-end production here."

In building his computer-chip empire, Charn has acquired complex production technology from his customers and strategic partners. In 1991, Charn paid $50 million to buy the Thailand-based hermetic-package integrated-circuit assembly and testing operations of Signetics, a subsidiary of Dutch electronics giant Philips Electronics. Signetics wanted out of the manufacturing business. But the company still wanted an assured, high-quality production capacity.

It solved the problem by transferring technology and placing orders with Charn's company. Signetics guaranteed it would buy at least 25 million units from Alphatec. And Alphatec promised it would fill Signetics' orders. In a similar move, Charn bought out U.S.-based Na tional Semiconductor's Bangkok oper tions in 1993, forming NS Electroni (Bangkok).

Alphatec has since concluded a numb of deals with other big electronics firn including America's Cypress Semicondu tor. Most recently, Alphate signed a contract worth $4 million a month to assemb ceramic erasable-programm able read-only memory chi for Texas Instruments Sing pore. Texas Instruments is hel ing the company install a full automated assembly line t manufacture them.

Charn has also been expanc ing into businesses that will us the group's integrated circui to make finished product Alphatel, which makes tele phones and answering ma chines and plans to start manu facturing cordless and cellula phones in the near future, coul become a consumer of inte grated circuits made by othe companies in the group.

And then there's the silicon-wafer con pany Charn is building. Known as Sub Micron Technology, it will supply inte grated circuits to the group's assembler To get the foundry up and running, Char will rely on AT&T, National Semiconduc tor, CRS Logic and other companies tha want to be his customers. Initially Sub Micron will have a production capacit of 5,000 eight-inch wafers per week. B the end of 1996, capacity will grow t about 9,000 units per week.

"This is a big milestone for Thai tech nology," says Staporn Kavitanon, secre tary-general of Thailand's Board of Invest ment. The board has given SubMicron number of tax cuts, including an indefinit exemption in import duties on machiner and raw materials.

Charn says he will own 50-55% of Sub Micron himself and his bankers and fin anciers will hold 20%. Alphatec anc Alphatel will together take a 10% stake with the rest held by individuals.

Later this year, Charn says, SubMicro plans to list on the Stock Exchange of Thai land. Alphatel and NS Electronics als intend to raise funds in the capital marke with initial public offers this year Alphatec, the one group company alread traded on the exchange, has fared well. It stock closed at 450 baht on December 30 more than five times the initial public of fering price of 81 baht in November 1993.

Charn figures things are going his way "The trend for the big companies is to dc less and less themselves," he says. "They don't want to have to invest in manufacturing, they just want to concentrate on design." ■

Blame Washington

Singapore's red-hot economy is poised for a slowdown and it's probably America's fault. But that's only fair since positive developments in the United States played a key role in producing growth rates during the past two years that exceeded nearly everyone's expectations — including those of Singapore's government.

In 1993, low U.S. interest rates prompted investors to pour money into Southeast Asian stocks, fuelling a financial-services boom in Singapore that helped push GDP up by 9.9%. When market activity waned in 1994, U.S. demand for computer components filled the gap, and Singapore's growth proceeded at a 10.4% clip in the first three quarters.

Although most economists expect growth for 1994 to wind up in double digits, both private and government forecasts peg GDP expansion at 8-9% this year. More cooling is expected in 1996. Securities firm Barclays de Zoete Wedd, for example, forecasts 6.4% growth in 1996.

The catalyst for the slowdown, economists say, will be U.S. interest rates. As U.S. rates rose in 1994, Singapore's did too, with the three-month interbank rate climbing to about 4.38% from 2.86%. Now economists expect higher U.S. rates to reduce U.S. demand for products made in Singapore.

"We are bearish on Singapore's prospects because we feel that the export cycle has now peaked," says Andrew Freris, chief regional economist at Salomon Brothers in Hong Kong, who predicts 8.5% growth in 1995. "We think the American economy will peak in the middle of 1995 and this will definitely impact exports from Singapore."

Salomon Brothers notes that a third-quarter survey by Singapore's Economic Development Board found that only 27% of electronics manufacturers were optimistic about their business prospects over the next six months, compared with 47% the previous quarter. Actual electronics production rose by 20.4% in the first quarter, 26.5% in the second and 23% in the third.

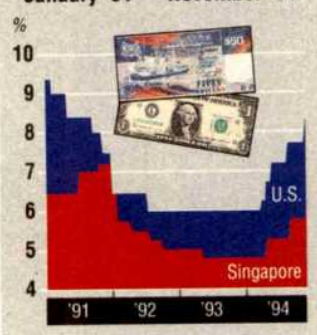
To be sure, a slowdown is not entirely a bad thing. With unemployment below 2%, Singapore's government worries that sustained 10% growth could lead to wage inflation.

What's important is that Singapore retain its competitive edge. And here there are some troubling signs. Unit business costs turned up 0.6% in the third quarter after six consecutive quarters of year-on-year declines. And office rents in Singapore's central business district rose 5.5% in the third quarter, the fastest advance of any major Asian city during the period, according to a survey by property consultants Jones Lang Wootton.

The consumer price index also rose to 4% year-on-year in November. But opinion is divided on whether it will head higher. Schroders Securities and BZW predict it will climb in 1995 to 4.2%. But Freris of Salomon Brothers sees the figure falling back to 3.3% and Jardine Fleming is calling for CPI growth of just 2.5%.

Shadow Play

Prime lending rates in Singapore and the United States, January '91 — November '94



Source: Schroders Singapore

REVIEW GRAPHIC/SIMON WONG

Singapore's front-line of defence against inflation has always been a strong currency. Because the city-state has to import so many things, a strong currency reduces costs. But some economists have raised concerns that further strengthening will also harm Singapore's export competitiveness. For the year through November, total exports grew 23.3% to S$134 billion ($91.8 billion). Imports rose 13.9% to S$142.4 billion, for a net deficit of S$8.4 billion.

Song Seng Wun, regional economist at S.G. Warburg in Singapore, predicts the Singapore dollar will end 1995 even stronger, somewhere between 1.42 and 1.44 to the U.S. dollar, compared with 1.46 currently. "It should still play the role of shielding the economy from imported inflation," he says.

Singapore's current account remains in surplus. Song expects the surplus to hit about S$12 billion for all of 1994 and about S$10 billion in 1995.

Foreign investment is expected to remain fairly stable next year. During the first nine months of 1994, approved foreign investment in manufacturing hit S$2.9 billion, a 26% increase from the year-earlier level. ■ **Gary Silverman**

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COMPANIES

No More Fizz

Coca-Cola falls out with India's Parle Foods

By Hamish McDonald in New Delhi

An era in Indian business came to an end when Ramesh Chauhan sold his five soft-drink brands to Coca-Cola in November 1993. Coke was back in India, some 16 years after being forced out by a socialist government, without even a fight from the main local rival.

Few blamed Chauhan for running up the white flag before the first crate of Coke appeared in Indian shops. Most saw it as a realistic decision that earned Chauhan a handsome $40 million and allowed him to preserve at least some market presence (by agreeing to bottle Coca-Cola products) in the face of an overwhelming brand name. Chauhan himself said the deal made "perfect sense" and Coca-Cola's international-operations chief John Hunter described it as a "powerful partnership."

Just a year later, the mix has gone sour. Accusing Chauhan of a fundamental breach of faith, Coca-Cola has withdrawn from certain agreements that would have seen further joint investments with Chauhan's Parle Foods. Chauhan has run to the Indian press and talked of legal action: He has accused Coca-Cola of "cheating" him, of using Parle to re-enter the Indian market and then callously dumping it.

Foreign investors are watching the row carefully: The corporate quarrel coincides with a broader debate about the popularity of India's moves to liberalize its economy. The reforms, begun in 1991, have been the subject of increasing scrutiny since the state-election reverses for the ruling Congress Party in early December.

Industry sources suggest that Chauhan may be trying to capitalize on the uncertain political climate to overcome seemingly poor odds — both on financial and brandname grounds in its rift with Coca-Cola. Other ongoing cases of Indian companies standing up to a big foreign partner are tobacco group ITC's ongoing resistance to a takeover by its largest shareholder, British-controlled B.A.T Industries, and Hindi television channel ZeeTV's efforts to keep Rupert Murdoch's StarTV from direct control, despite the fact that Star owns 50% of Zee.

Some analysts see a clash of cultures writ small in disputes like that between Coke and Parle. Chauhan and Pillai were "archetypal Indian businessmen," wrote columnist Subir Roy recently in the *Business Standard* newspaper. "They are past masters at weaving a complex web of intrigue and almost impossible to beat at one-upmanship. And Coca-Cola is the typical lawyer-driven American giant whose enemies meet their comeuppance in complex legal agreements that tie them up in knots but leave the [foreign] company with sufficient loopholes."

But unlike disputes in East Asia, where Western firms are often accused of relying too much on lawyers and written contracts and ignoring the human give-and-take of long-term relationships, both Coca-Cola and Parle are referring to contracts and keeping lawyers at the ready. Despite the harsh words that have appeared in print, neither side is saying the marriage is over.

DOUGLAS E. CURRAN/AFP

Coca-Cola in India: investors watch as partners brawl.

And so far, little has been heard from the economic nationalists who backed Chauhan against PepsiCo, which entered India in 1989, but only under severe restrictions that were put in place partly as a result of the nationalist clamour. Meanwhile, Coca-Cola has an Indian management team handling its local battles — a move that could insulate it from any potential anti-foreign backlash.

The relationship between the soda giants began at Chauhan's initiative, and was clinched at Coca-Cola's Atlanta headquarters in September 1993 (contracts were signed two months later). After Chauhan sold his brands — Thums Up, Limca, Citra, Gold Spot and Maaza — he became a bottler for Coca-Cola's three brands (Coke, Fanta and Sprite) as well as his former drinks — using concentrate made at Coca-Cola's new $20 million plant at Pune, outside Bombay.

Several ancillary agreements covered the upgrade of the 56 bottling plants in the Parle chain, a $125,000-a-year consultancy fee for five years to Chauhan and his brother Prakash, and a proposed $2 million equal partnership to extend bottling plants as economic growth spread spending power among India's 900 million people. Chauhan would get first right to add additional bottling plants in Pune and Bangalore, two hi-tech centres that are attracting affluent professionals.

Coca-Cola was interested because its previous partner, Ranjan Pillai, was busy defending himself in a Singapore court against charges of misusing company funds from a joint venture there. In addition, Parle's 60% market share and ready-made bottling and distribution network would ease the entry for Coke's own brands. For his part, Chauhan concluded that Coke's return would inevitably reduce his market share and shave profit margins.

Tension set in almost immediately. A source close to Coca-Cola says the company found that Chauhan's two plants in Delhi and his plant in Bombay were not up to its standards, dashing expectations of an immediate launch of Coke in two cities that by themselves account for some 27% of India's soft-drink consumption. It was only when a modern plant was located in the tourism centre of Agra that the first Indian-made Coke was uncapped, in November 1993. Coke was not launched in Delhi until March last year; it appeared in Bombay in June.

Coca-Cola regarded Chauhan's slowness to upgrade his own plants as setting a bad example for franchisees who run most of the Parle bottling units, say industry sources. Likewise, Chauhan was slow to find sites for the new plants in Pune and Bangalore that Coca-Cola had reserved for him.

The "final straw," according to the source close to Coca-Cola, came in late 1994 when the company noticed that bottling units directly owned by Chauhan in Bombay and Delhi were buying an "amazingly low" volume of concentrate for the Parle brands they were producing. Coca-Cola found that Chauhan was making concentrate for his own brands and using it to make drinks.

As Coca-Cola's only revenue comes

rom concentrate sales to its bottlers — he price includes the cost of materials and processing as well as fees for marketing — the company saw Chauhan's move as directly reneging on the sale of his brands. It withheld the annual consultancy fee due to each of the Chauhan brothers, and withdrew the Pune and Bangalore bottling options.

Chauhan then agreed to pay Coca-Cola compensation of 45.7 million rupees ($1.45 million). On December 13, Coca-Cola wrote to the Chauhan family saying "the issue regarding manufacture of beverage bases/concentrates by their bottling plants for captive consumption stands closed." Coca-Cola released the consultancy payments, but a week later notified the Chauhan brothers that it regarded the arrangement as having been repudiated "in view of clear admission that you have breached our confidence."

Reading this as a sign that all his grand schemes with Coca-Cola — including the $20 million joint bottling venture — were off, Chauhan launched a harsh media campaign against Coca-Cola and threatened legal action. Parle Foods, however, did not respond to REVIEW requests for an interview.

For its part, Coca-Cola has taken out pre-emptive injunctions requiring Chauhan to inform it of any impending legal petitions. But Coca-Cola India's president, Jaydev Raja, has refused to respond in kind to Chauhan. To all queries, Coca-Cola states that the "ongoing business relationship" with Chauhan is "very much operational and functional." A dispute? Just part of the "ongoing dialogue with our business partners."

To help head off political rumblings, Raja spent December 29 in New Delhi briefing Finance Ministry officials on how Coca-Cola had invested about 3.4 billion rupees in India so far, paid 1.5 billion rupees in excise tax to the government in its first year, and exported 450 million rupees in items like bottles, crates, customized delivery trucks, and commodities. Coca-Cola's entry had expanded the soft-drinks market by 7% in 1994 (as against 1% growth in 1993) to around 130 million cases, according to the company.

The standoff may simply end in stalemate. Industry observers say that both parties would continue to benefit from a partnership, even if not on the terms set in 1993. Chauhan's bottling plant in central Bombay would be impossible for Coca-Cola to replace given the city's land squeeze. But it could be ruinous for Chauhan to walk away from Coca-Cola; he already has a huge investment in a stock of special bottles for the Coke and Parle brands. The question could be: How can the ambitions of an Indian entrepreneur like Chauhan be accommodated by a multinational like Coca-Cola? ■

JIM PRINGLE

The poor harvest will hit GDP hopes.

Men at Work

Rebuilding Cambodia's economy will take time

By Gordon Fairclough in Phnom Penh

Every few months, Pong Pet hitches a ride on the back of his friend's motorcycle and makes the 50-kilometre journey to the market in Siem Reap. He comes to buy spare parts for his brother, who has worked as a bicycle repairman since a land mine blew off his legs and made it impossible for him to till the fields.

Usually when Pong Pet comes to town, he also shops for clothes and other necessities for his wife and five children. Today he isn't buying anything extra. Back home things are grim. Last year at harvest time he got five bushels of rice; this year, only one. "First there were floods," Pong Pet says. "Then the rains stopped and there was a drought. The crop dried up and died."

Pong Pet, who looks older than his 35 years, says the Khmer Rouge are making things even worse. "Sometimes there's fighting and they burn people's houses," he says. "The guerillas put mines in the fields and steal pigs and chickens from the people."

Pong Pet's tale is a familiar one told time and again in this muddy market on the outskirts of Siem Reap, 250 kilometres north of Phnom Penh. Widespread flooding followed by drought has destroyed crops across large swathes of rural Cambodia. And renewed fighting between the Khmer Rouge and government forces in the country's northwest has sent tens of thousands of people fleeing their homes.

That is bad news for the Cambodian government as it seeks to restore stability and rebuild the economy after more than two decades of war and communist mismanagement. "We are very worried about these agricultural problems," says Tioulong Saumura, the deputy governor of the National Bank of Cambodia. "Not only will it be highly inflationary, it might provoke social unrest."

About 85% of Cambodia's 9.5 million people live in rural areas, and agriculture accounts for nearly half of the country's gross domestic product. The poor harvest has prompted officials to revise their estimate of GDP growth for 1994. They now figure the economy will expand about 5%, a far cry from the 7.5% forecast at the beginning of the year. The government also says it may need to import 300,000 tonnes of rice in 1995 to feed its people, twice as much as last year.

The effects of the crop failure are already noticeable. Small businessmen and traders such as Vanh Naery, who sells construction supplies in Siem Reap, are being pinched. "When the farmers had money, they used to buy corrugated steel sheets to replace their thatched roofs," Vanh Naery says. "Now they don't have money. And they're afraid the Khmer Rouge will burn down their houses, so they don't want to make the investment."

The repercussions are being felt all the way to Phnom Penh. Fujie Shuji, vice-president of Eastern Steel Industry, which makes galvanized steel sheeting, says sales have fallen by about a third since November.

GORDON FAIRCLOUGH

Keat Chhon: foreign-aid priority.

To stave off further damage to the economy, says Finance Minister Keat Chhon, Cambodia will have to mobilize international aid and redirect some of its resources. Foreign assistance, he notes, is critical if Cambodia's coalition government is to stick to a macroeconomic stabilization programme — supervised by the IMF — which places

strict limits on government spending.

So far, the coalition government comprising the royalist Funcinpec party and the Cambodian People's Party, the country's former communist rulers, has done well. The currency has stabilized at about 2,600 riel to the U.S. dollar. And inflation fell to 2.3% in September, down from 145% in the same month in 1993. It has since edged upwards with expectations of rice shortages.

In addition, government revenues are up and spending is down. Phnom Penh plans to trim the number of civil servants 20% by 1997. To help those who remain become more efficient, the World Bank in December agreed to provide $17 million to pay for training and equipment; the Finance Ministry, for instance, has only three personal computers, and national accounts are still kept with pencil and paper on a metre-wide spreadsheet.

The cabinet is also looking for ways to boost revenue, about 70% of which now comes from customs duties. Under consideration are an income tax for salaried workers who earn more than $300 per month, and a value-added tax.

Officials at the IMF are pleased. "In general, everything is on track," says Reza Vaez-Zadeh, the IMF's representative in Phnom Penh. "We're expecting a rebound in 1995 and accelerating growth. Cambodia has a lot of potential and there is a lot of goodwill from the international community to support it."

One reason for the optimism is the government's expressed commitment to liberalization. Says Keat Chhon: "Our main thrust is strengthening our market mechanism and working for the emergence of a sound and strong private sector, both Khmer and foreign."

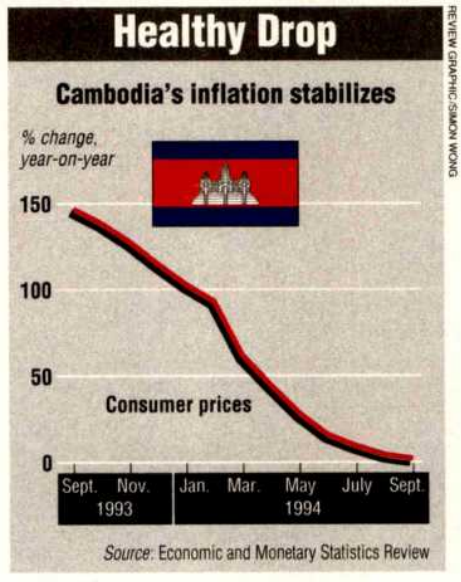
To that end, the government has been extricating itself from the economy. The central bank has announced it will sell its holdings in commercial banks. What's more, the Ministry of Industry has succeeded in selling 10 and leasing out 43 of the country's 67 state enterprises to private companies. Next on the block: an oil refinery in Sihanoukville that hasn't operated since 1970, and Kampex-Im, the state-run trading company.

"It's not possible for the government to get these state-owned enterprises back on their feet," says Industry Minister Pou Sothirak. "We don't have the finances or the technological know-how. Only the private sector can rebuild them."

The government is also looking to private investors to expand the modern sector of the economy. Industry accounted for just 17% of GDP in 1994. And with domestic capital in short supply, the government knows it needs to attract money from overseas. In August, Parliament passed a liberal investment law that excuses firms from paying taxes for up to eight years after they earn their first profit and grants exemptions from import duties on equipment and raw materials.

The top priority is labour-intensive industries. "The whole object is to create jobs for our people," says Chanthol Sun, secretary-general of the Council for the Development of Cambodia, the country's investment-promotion agency. Tourism and infrastructure are also key areas.

Foreign investors seem to be heeding the call. From August to November, the development council approved projects worth about $300 million, including a handful of garment factories and a sugar refinery. And in December, Malaysia's Ariston received permission to build a casino on Naga Island off Sihanoukville on Cambodia's southern coast.



Most of the high-profile deals involve Malaysian or Singaporean firms. Malaysia Airlines and the Cambodian government have entered a joint-venture to operate a Cambodian national carrier, Royal Air Cambodge. Under the arrangement, MAS holds a 40% stake and the government the remaining 60%.

Asia Pacific Breweries, a joint venture between the Netherlands' Heineken and Singapore's Fraser & Neave, says it plans to build a $50 million brewery in Kandal province to make Tiger Beer. DBS Land, owner of Singapore's Raffles Hotel, has signed agreements with the Ministry of Tourism to renovate and expand the Royal Hotel in Phnom Penh and the Grand Hotel in Siem Reap. And a subsidiary of Singapore's port authority will build an inland container depot in the capital. "Look at all these projects. Look at all this money," says Chanthol Sun. "That shows investor confidence."

He and his colleagues believe more investment is on the way. "Low-technology, labour-intensive industries are becoming less and less competitive in other Southeast Asian countries," says Vichit Ith, secretary-general of the Cambodian Investment Board. "We can capitalize on that."

Still, the ongoing Khmer Rouge insurgency and widespread banditry by ill-disciplined government soldiers and police mean that investors have to confine their operations to Phnom Penh and its surroundings, Sihanoukville and the provincial capital of Siem Reap. Travel by road and rail is not advisable.

Other problems also get in the way of business. There are few commercial laws and corruption is widespread. Moreover the majority of people are poorly educated with an illiteracy rate of about 70%. Finally, infrastructure is inadequate. Most firms must buy their own generators because Phnom Penh's power-generating capacity meets only about 20% of the city's demand.

But Chanthol Sun and his colleagues at the development council are confident the government is moving in the right direction. New electricity-generating equipment is being installed. Major roads are being rebuilt and Pochentong Airport in Phnom Penh is getting a second runway. New laws governing business are working their way through Parliament. "You cannot rebuild a country overnight after 20 years of war," says Chanthol Sun. "But we're getting there."

Improving security, however, may be more difficult. Everyone agrees that spreading prosperity to rural areas is the key to defeating the guerillas. But many question whether the government is doing what is necessary. Chanthol Sun and the development council are working to create jobs that will give poor Cambodians access to the wage economy and lessen dependence on low-productivity agriculture. But that will take years.

In the meantime, something has to be done for the millions of rural Cambodians without electricity, drinking water, health care and education. "They keep saying that rural development is the answer, the best weapon against the Khmer Rouge," says Julio Jeldres, chairman of the Khmer Institute of Democracy. "But very little has been done."

Some critics say government funds are often misdirected. "Money is spent receiving important guests, drinking expensive whisky and smoking cigars," says Son Chhay, a member of Parliament representing Siem Reap. "They probably spent three times more money on the reception for the prime minister than they are spending to help the flood victims."

Even so, there is cause for optimism. Says one Western diplomat in Phnom Penh: "Cambodia's got every opportunity to do it all right. They're building a democracy from the ground up. They're building a free market from the ground up." Naturally, that will take time. ■

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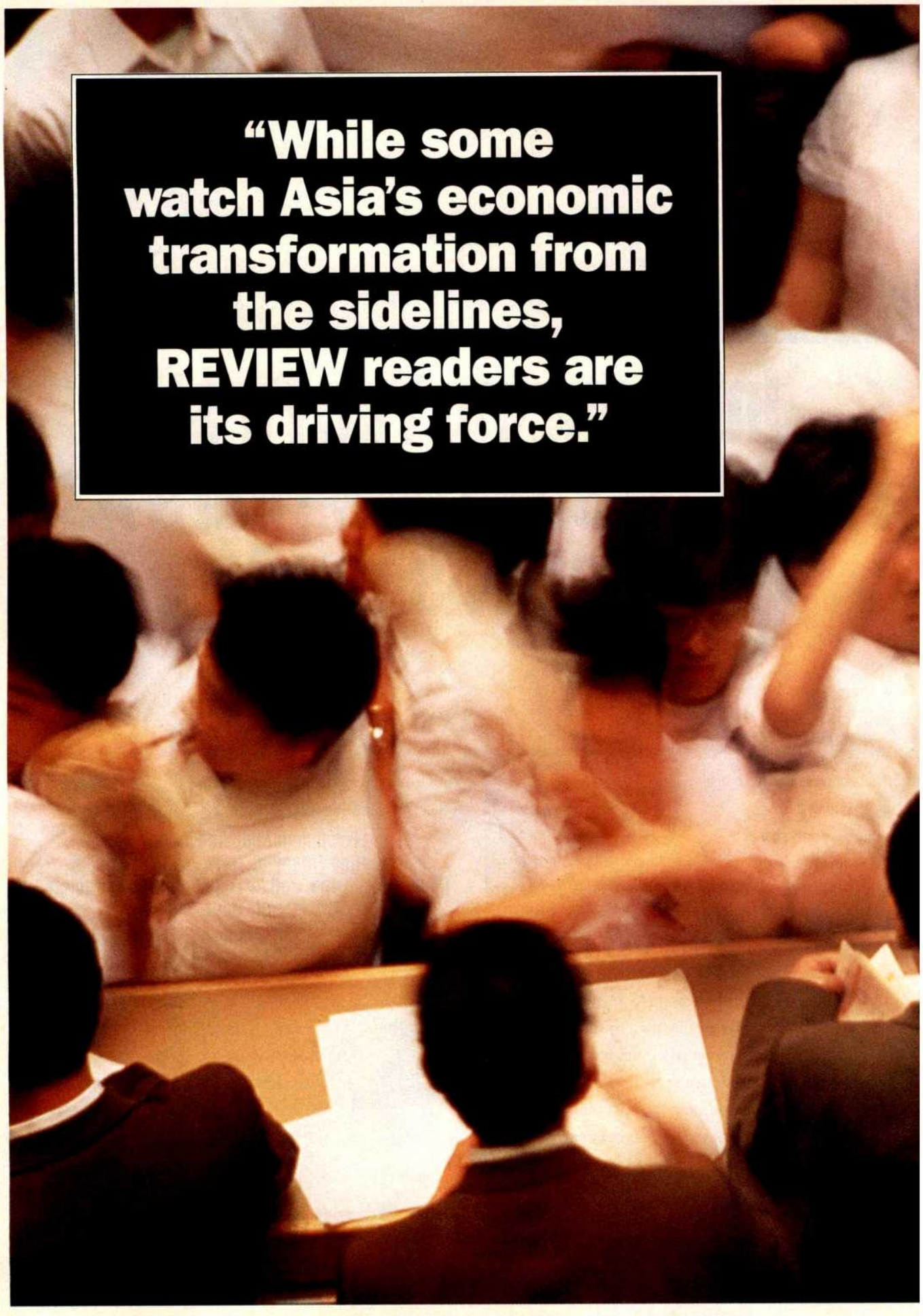
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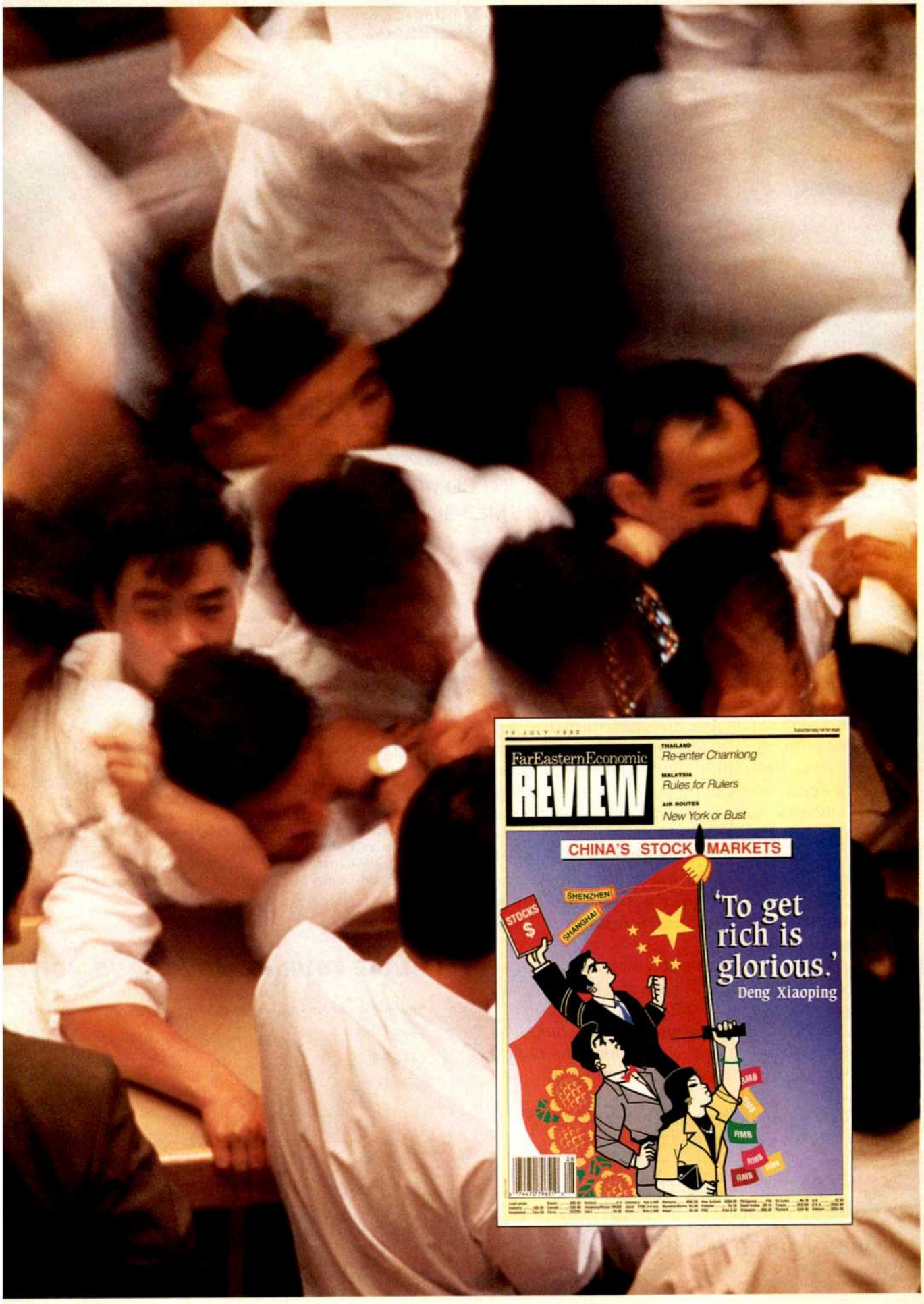
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Big Fry vs. Small Fry

ooming shrimp-farming business spawns protest

Nityanand Jayaraman in Madras

Kaliamoorthy's family has planted rice for generations in India's southern state of Tamil Nadu, in a village called 82 Melaiyur. But today he says lt water from a nearby shrimp farm is eping into the soil and ruining his crop. Our lands have become saline," he says, aking his head sadly. "The crops are not hat they used to be, they tend to wilt."

Kaliamoorthy's claims typify the growg antagonism between rice and shrimp rmers. But it's not just concerns over nvironmental degradation that worry griculturalists. Shrimp farms have come symbolize islands of prosperity in a sea f rural poverty. Nearly 40% of the farmrs in Kaliamoorthy's village are landless. nd as more and more landlords sell off eir land to companies setting up lucrave aquaculture farms, rice farmers are orried they will lose their jobs.

Last October, New Delhi announced at it will direct all state governments to nsure that good agricultural lands are ot diverted to aquaculture use. But so ar no directive has been issued and the entral government has done little to reguate the industry.

Despite the controversy, shrimp farms re springing up like weeds in India's outheastern coastal areas. With their romise of high returns — one hectare of hrimp farm yields after-tax profits of up o $20,000 annually, compared with just 2,000 for paddy — Indian blue chips are ncreasingly turning to aquaculture. "With uch irresistible profits, no wonder shrimp ever continues to rage on," says K.K. Kumar, marketing manager of Hyderabad-based Somkan Marine Foods, which lso farms shrimp.

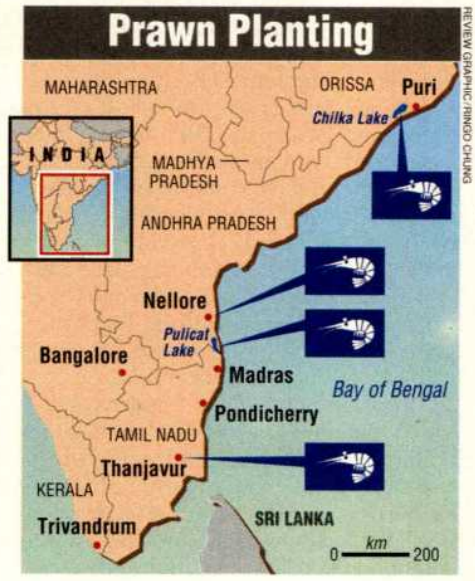
Today, India is the world's fifth-largest hrimp exporter; in 1993 exports of marine roducts topped $834 million, 70% of which was shrimp. Currently the total utput of cultured shrimp raised in landbased farming operations makes up 33% f India's total shrimp exports.

At the current rate, land used for aquaculture is likely to expand 25% to at least 100,000 hectares by the turn of the century. "That will fetch not less than $1 billion per annum and employ about 1 million people," predicts M. Sakthivel, president of the Aquaculture Foundation of India, a trade-promotion group.

Already, aquaculture divisions of several listed companies are contributing significantly to the companies' overall earnings. At listed MAC Industries, an agriculture-products company in Madras, shrimp sales grew 113% to $9.8 million in the year to March 31. Its shrimp division made up nearly one third of the company's total revenues of $31 million.

Spencer's Aquaculture, a division of listed Madras-based trading house Spencer & Co., is another firm that is getting into the shrimp-farming business. Spencer & Co. has exported processed shrimp since 1980. Its aquaculture unit will start farming shrimp on a 100-hectare site near Vanagiri village in May.

Madras-based listed S&S Industries and Enterprises plans to double its shrimp-farming operation to 83 hectares at a cost of $3.3 million. Sales of its farmed shrimp for the year to March 31 totalled $3.1 million, up 43% from a year earlier.



And Shriram Marine Harvests, a subsidiary of Shriram Industrial Enterprises, a New Delhi-based manufacturing company, earned after-tax profits of $100,521 in the year to March 31 on revenues of $1.1 million. That was its first year of operation.

There's one problem: Shrimp farmers fear that a backlash from social and environmental activists and non-governmental organizations may put the brakes on their fast-growing industry. Last September, shrimp farmers near Moovakarai village in Tamil Nadu allegedly burned down 35 huts after agriculturalists protested against their shrimp farms, according to Leela Selvaraj, a spokeswoman for Land for the Tillers (Lafti), a Tamil Nadu-based NGO. A month earlier, thugs hired by shrimp farmers allegedly harassed female demonstrators in a second village after Lafti organized protests against the shrimp farms, Selvaraj says. Most villagers' complaints revolve around concerns that the shrimp ponds are making their drinking water and irrigation supplies saline. Some farms have even been set up in sensitive wetland areas near the protected reserves of Chilka Lake in the state of Orissa and Lake Pulicat in Andhra Pradesh.

But Shriram Marine Harvests rejects farmers' claims of environmental damage. "These lands are naturally saline," says T.N. Shankar, the company's director. "It's barely capable of yielding one crop per year." A supervisor at the farm notes that the company has 40-50 metres of buffer land separating the shrimp farms from rice fields.

"Most of the lands are dry, completely dry," adds R. Kothandaraman, chief executive of Spencer's Aquaculture. "Crops may be possible, but is it commercially viable? The land is going to give at best of times one crop, which is not going to give employment or commercial return. Whereas we're planning to convert that into a commercially exploitable situation."

For its part, Spencer's Aquaculture is building a fresh-water canal along the borders of its farm. The ditch will absorb any seepage from the shrimp ponds, says Kothandaraman.

Other shrimp farmers say a zoning system will help remedy the problem. "Earmark certain areas for coastal aquaculture," says Sakthivel of the Aquaculture Foundation of India. "Aquaculture should not be encouraged in agricultural areas or vice versa."

A large number of NGOs and agriculturalists also complain that shrimp farmers are converting fertile agricultural land into aquaculture farms. But Sakthivel says these fears are unfounded. Out of 800,000 hectares available for rice cultivation in Cauvery delta in Tamil Nadu, nearly 100,000 hectares is unusable due to its alkaline or saline soil, he notes. Shrimp farming has taken up only about 600 hectares in this area.

But the heart of the dispute isn't salinity — it's about whether the benefits of shrimp farming will trickle down to the masses. "The farms have hardly generated any employment," says Murugan, a resident of 81 Keezhaiyur village in Tamil Nadu. "They only give us menial jobs."

Shrimp farmers disagree. Aquaculturalists claim one hectare of shrimp farm generates year-round daily employment for four people and indirectly to another four through ancillary activities such as hatchery work, collection of brood prawns and work in processing plants. Agricultural labour, they say, provides only sea-

sonal employment at best. Says Kothandaraman of Spencer's Aquaculture: "We're consciously providing local employment. Even if we're told that the locals are somewhat less efficient, we would still prefer the locals to be recruited."

According to a report released last October by the Central Marine Fisheries Research Institute, approximately 25,000 villagers in 59 villages in coastal Andhra Pradesh were engaged in collecting prawn seeds for aquaculture hatcheries. The survey concluded seed collection had contributed significantly to the standard of living in the villages.

Satellite farming in which a portion of earnings is channelled back to the villagers is one way of helping to defuse the issue. "The big companies should act like principal farmers by taking many small people around them and equipping them with inputs, technology and financial support so that they can get involved," says Sakthivel of the Aquaculture Foundation of India.

At Spencer's Aquaculture, a goodwill

NITYANAND JAYARAMAN

Shrimp farmers: doing well but worried about the environmental backlash.

package for the 7,000 village residents will include roads, schools, clean drinking water and even TVs. Now the company says villagers bordering its satellite farm in Vanagiri have refused to cooperate with environmental activists. "We have total support from the villagers," says Kothandaraman. "So much so that when outsiders came to disrupt construction, these people told them to get away."

Because compensation packages represent merely a fraction of a company's potential earnings, more and more firms are offering programmes aimed at winning over the local people. The industry has also asked the National Bank of Rural Development to include social projects in the bank's loans to shrimp farmers.

In the meantime, the central government has proposed setting up an aquaculture institute in Tamil Nadu to train villagers in aquaculture techniques, coordinate extension work and assist in establishing model shrimp farms. ■

MEDIA

Patriot Games

China shuts Sino-Hong Kong newspaper venture

By Jonathan Karp in Hong Kong

Readers of a certain Chinese-language daily in Hong Kong awoke on the first business day of 1995 to an editorial criticizing Western media domination and calling for a newspaper that viewed world affairs "objectively, independently and fairly" — through a Chinese prism.

"Tibet is part of China," it proclaimed. "The majority of Chinese have no doubt about that." The commentary was not on the front page, so even those jet-lagged from holiday jaunts must have realized they weren't holding the *People's Daily*, the Chinese Communist Party mouthpiece.

The newspaper was, in fact, the prestigious local *Ming Pao Daily News*, which has earned a reputation for independence through aggressive and often critical coverage of China. Few ethnic Chinese patriots could quibble with the editorial's general premise. And it certainly jibed with the aspirations of Yu Pun-hoi, the controlling shareholder of Ming Pao Enterprise publishing group, to build a global Chinese-language media empire.

But a development that may have provided the impetus for the conciliatory editorial wasn't mentioned anywhere in the text: A few days earlier, Chinese authorities had shut down a Guangzhou newspaper in which Yu's privately owned conglomerate CIM held a minority stake.

The closure of *Modern Mankind* served up a reminder to foreign entrepreneurs, especially in neighbouring Hong Kong, that the dream of openly penetrating China's media market is distant for now.

"China is not at all relaxing its tight control on ideology and wants to cut all ties between the domestic and foreign media," says Jin Zhong, editor of *Open*, a China-watching magazine in Hong Kong. Just before *Modern Mankind* was ordered closed, a Beijing court upheld a six-year prison sentence for a mainland reporter convicted of "selling state secrets" to a Hong Kong publication.

For Yu, the closure of *Modern Mankind* was the finale of an *annus horribilus*. In 1994, Yu was censured by the Stock Exchange of Hong Kong and forced out as Ming Pao chairman for failing to disclose a 15-year-old criminal record in Canada; he closed down a loss-making Hong Ko tabloid that had been his brainchild; a he started selling down CIM's stake Ming Pao to help finance his costly C nese Television Network satellite-' channel. China also imprisoned a *M Pao* reporter for 12 years for spying.

The decision to sell up to 10% of Mi Pao to Oei Hong Leong, an Indones born businessman with mainland ties, a appoint him Ming Pao chairman w intended to help smooth over some of difficulties Yu was having with China

Technically, the *Modern Mankind* jo venture had nothing to do with Ming P It was also meant to be a model agr ment in which a CIM subsidiary provic management and technical expertise to newspaper but had no editorial role. T closure, however, suggests that su legalistic distinctions are flimsy wh China decides to clamp down.

CIM executives refuse to comme Hong Kong journalists close to China it was prompted more by Yu's visi efforts to expand his media business China than by the content of *Modern M kind*, a small, loss-making newspaper.

The newspaper started in the m 1980s as a liberal journal espousi political and economic reform, and s eral editors were active in the 1989 p democracy demonstrations. But after military crackdown, *Modern Mank* shifted towards covering cultural affa

After CIM linked up with it in 19 the newspaper was even more restrain observers say, to protect Yu's investme CIM's participation enabled the news per to become a daily in mid-1994, bu was about the same time that the Gua dong branch of the China Council for Promotion of International Trade wi drew its sponsorship of *Modern Mank* All media organizations require gove ment sponsors.

The loss of backing has not been plained officially. What irked the Chin authorities, according to journalists cl to China, was Yu's attempt to distrib *Modern Mankind* independently. "Th very dangerous to China," one Hc Kong-based journalist says.

A better positioned Hong Kong me company, Sing Tao Holdings, is a experiencing resistance in China. A courting China for almost a year, Sing recently won approval to print the E lish-language *Hongkong Standard* in I jing, though it cannot distribute the d there on its own.

Sing Tao also has two magazine jc ventures, including one with the *Peop Daily*. But a planned joint vent Chinese-language business daily for southern city of Shenzhen has remai dormant since the project was announ in November 1993. As 1995 dawns, th is still no launch date in sight.

Merit Award

Quality and price figure in Malaysian airport contract

y S. Jayasankaran in Kuala Lumpur

When the Finance Ministry announced in December that a consortium led by state-owned onglomerate Perbadanam Nasional had inched a M$1.74 billion ($677 million) irport contract, analysts said it was fairly warded. The reason: The Pernas-Japanse consortium had the best technical pecifications but only 20% local equity.

Meanwhile, it won out against eight thers, some of whom not only had larger ocal content but strong political links and ower bids to boot. That wasn't all. ources close to the Finance Ministry say hat the consortium led by United Engineers (Malaysia), a listed construction ompany controlled by allies of former inance Minister Tun Daim Zainuddin, ried to better Pernas's bid after the conract was awarded.

UEM dropped its price by a full M$240 million, to M$1.73 billion from M$1.97 billion. It cited cost savings from reducions in import duties. According to the ources, the Finance Ministry used this to ry to wrest concessions from the Pernas consortium.

It worked. The Pernas group, which includes major Japanese construction companies Kajima and Shimizu, among others, dropped its price by M$10 million and matched UEM's offer of M$1.73 billion.

The contract was the first of 55 packages that will form Malaysia's new international airport outside Kuala Lumpur, which is set to be completed by 1998. But it was the largest — involving the design and construction of the main terminal, contact pier and baggage-handling system. Nine consortiums had been short-listed with bids ranging from M$1.5-2.1 billion.

Some were politically influential. Apart from UEM, there were lower bids from YTL Corp., whose owners are said to be close to Prime Minister Datuk Seri Mahathir Mohamad, and two other companies controlled by allies friendly to Deputy Prime Minister Datuk Seri Anwar Ibrahim. They are listed media giant Malaysian Resources and a private company, Charterbridge, which is controlled by Nasaruddin Jalil, a former press secretary of Anwar. ■

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ENTREPRENEURS

Some Got Away

Australia tallies the cost of corporate crime

By Jacqueline Rees in Canberra

They were Australia's high fliers of the 1980s, the over-geared buccaneers who built billion-dollar empires with other people's money during an unprecedented decade of corporate and government profligacy.

Now they — and the nation that succoured them — are counting the cost: Some have fled the country, some are behind bars, some are spending minifortunes trying to keep from behind bars, and all have left a trail of debt.

At the top of the list is Christopher Skase, a journalist-turned-stock broker who rode into property, radio and television ownership via his listed Qintex company in the early 1980s only to collapse with A$1 billion ($775 million) of debts before the decade was out.

Skase now suns himself at his villa in Majorca, Spain. He's been there since 1991. That's when Australia's corporate watchdog, the Securities Commission, announced it wanted him on 32 charges, including a highly unusual transfer of some A$19 million from Qintex to his own private company, Kahmea Investments.

Skase for years claimed that a serious lung condition prevented him from travelling to Australia to face the music. He was rarely seen in public — usually leaving Majorca General Hospital in a wheelchair, with respirator. But he managed to walk out of the hospital without them after a Spanish appeals court in late December overthrew extradition orders. The Australian judge who ordered his return last August called Skase "a conniving fugitive who has exaggerated his medical problems out of all proportion."

The Australian Government's efforts to bring Skase home cost A$1 million; the tax man is after him too — for A$900,000. Small shareholders in Qintex also undoubtedly would like to get their hands on him. After the company's assets were sold, they received a mere 2 Australian cents back for every dollar invested.

"A travesty," cried politicians, editorial writers and others who had nonetheless accepted Skase's lavish hospitality in the heady 1980s, drinking his champagne, riding in the corporate jet, and living it up at any of his three luxury get-aways prophetically named the Mirage Resorts.

Also beyond the reach of Australian law is Abe Goldberg, suspected by authorities of fleeing to Poland to avoid bankruptcy action over A$500 million in personal debts following the collapse of his textile company, Linter.

REUTER

Bond with his lawyers after a court appearance.

"Cowards," Alan Bond calls them. He, after all, has done time. In 1992, he served 90 days of a two-year jail sentence for failing to disclose A$16 million he received for a deal he negotiated involving Rothwells Bank. His conviction was overturned on appeal.

Bond is a former sign painter who made billions on property deals before he fell with the 1987 stockmarket crash. His personal debt and that of family company Dallhold reportedly runs to A$3.7 billion. (The defunct Bond Corp. owes some A$3 billion.) Bond now is eligible to replace Kevin Maxwell, son of the late British media tycoon Robert Maxwell, in the Guinness Book of World Records as the world's biggest personal bankruptcy case.

That's not all. Bond is facing trial once again, this time for alleged fraud related to the 1989 purchase of a A$5 million Monet painting.

Meanwhile, merchant banker Laurie Connell, with whom Bond did business at Rothwells, is now behind bars serving a five-year term. He was found guilty last year of "conspiring to pervert the course of justice" in relation to the fixing of a horse race in 1983. The conviction came after the longest criminal trial and investigation in West Australian history: The trial lasted six months, but it took authorities 11 years to bring Connell to court. Th first had to track down the jockey involv in the case. Connell reportedly funded t jockey's flight through five continents the tune of nearly A$1 million. When stopped payments, the jockey sang.

In between the race and his conv tion, Connell made big money o of the Western Australian Gover ment under Premier Brian Burk setting up deals involving diamo mines, a petrochemicals compa and property. He also became Au tralia's biggest individual hor owner with stock valued at mo than A$30 million.

In common with his mates, racked up huge debts. Even so, spent an estimated A$2.5 milli trying to keep from jail.

And that was just a curtain rais Connell is due to go on trial aga in March, this time on 70 charg relating to conspiracy to defraud t public by falsely portraying t financial position of his now-defu Rothwells Bank in financial sta ments from 1985 to 1987. The Cro alleges he removed almost A$4 million from Rothwells. He cou face 149 years in jail if convicted all counts.

State politicians who relished t smart dealing and luxury lifesty have paid a price, too. Former P mier Burke, once anointed by form Prime Minister Bob Hawke as a futu federal leader, is now in jail. He was co victed — of all things — of fiddling travelling allowances. His one-tir deputy, David Parker, is there also, gui of using political-party funds to build kitchen in his private home.

The fallen are not only men. Rob Greenburg is serving 14 years for crimes related to her failed Weste Women bank, which she had sought portray as a feminist banking initiati The West Australian Supreme Co found Greenburg stole some A$4 milli from the bank, mainly to satisfy her o tastes in travel, clothes and jewellery.

Tracking her down was something a Keystone Cops affair, the court was to with midnight forays into the bush wh she inadvertently started a fire while t ing to burn incriminating documents, a an after-midnight dash along the Sw River, into which she tried to dump ot documents.

They were rollicking times in Austral the 1980s. But now the party is over a there is a lot of licking of wounds. Ma billions of dollars have simply d appeared. No one can account for the Many small investors lost everything a some of the biggest perpetrators so have gotten off the hook. Then aga some didn't.

BUSINESS BRIEFING

HINA

rading Threats

.S. Trade Representative Mickey Kantor warned that eijing faces possible nctions in February against ore than $1 billion in xports to the U.S. if China oesn't crack down on ounterfeiters of imported ovies, compact discs and omputer software. Beijing in rn threatened to block nports of American music, igarettes, alcoholic beverages nd films if the U.S. imposes anctions.

uditors Get Tough

eijing will step up auditing f Sino-foreign joint ventures nis year, State Councillor Li Guixian told a national onference. Targeted abuses nclude tax evasion through nderstatement of income nd dilution of Chinese quity through over-valuation of imported equipment upplied by the foreign partners.

Grain Output Drops

Floods and droughts caused China's 1994 grain output to drop 3% to 12 million tonnes, said the State Statistics Bureau. As a result, state grain purchases rose by 8% to help offset price increases. Statisticians claimed that each 3% decrease in agricultural output added 1% to the national inflation rate.

THAILAND

Tariffs Cut

The Finance Ministry cut import tariffs on 11 product categories covering almost 4,000 goods and more than half of all taxable items. The cuts bring average tariff levels down to 17% from 30%. Among imports affected are cars, electrical machinery, petrochemicals and consumer goods. Although the government stands to lose nearly 17.2 billion baht ($688 million) in annual revenue, Finance Minister Tarrin Nimmanahaeminda said the cuts would enhance Thailand's competitiveness by forcing local producers to improve quality.

MANUEL CENETA/AFP

Cause for sanctions: pirated CDs on sale in a Beijing street.

INDIA

TV Tie-Up

The Foreign Investment Promotion Board approved plans by Hong Kong's Television Broadcasts and Britain's Pearson, publisher of the *Financial Times*, to set up a television production complex with the *Hindustan Times* newspaper group controlled by K.K. Birla. TVB will have 30% and Pearson 20% in the $25 million project. The venture is separate from a proposal to start an Indian edition of the *Financial Times* in partnership with newspaper house Ananda Bazar Patrika. That venture has been stalled by political objections to foreign print media entering India.

Patent Law Changed

The government issued a presidential decree to allow product patents in agricultural chemicals and pharmaceuticals — two sectors previously restricted to process patents. The change, which amends the 1970 Patent Law, was made to allow India to come under the new World Trade Organization, but also addresses a long-standing complaint by industrial countries that the old law legalized piracy of farm and drug products. Parliament must approve the decree.

More Textile Exports

India signed new textile-trade agreements with the U.S. and the European Union that will allow an immediate 20% jump in its $2.5 billion textile and garment exports. Both the U.S. and the EU removed limits on many handloom and cottage-industry items. In return, India has agreed to a phased lifting of its import restrictions on high-quality garments and industrial fabrics.

NEW ZEALAND

Bank Changes Rules

The New Zealand Reserve Bank said it will abolish rules limiting the amount banks can lend individual borrowers and ease guidelines on internal controls from the end of 1995. Banks instead will be required to make full public statements of assets, liabilities, exposure and capital adequacy.

UNITED STATES

Kia Launches Vehicle

South Korea's Kia Motors launched its four-wheel drive Sportage utility vehicle in the U.S. The car will undercut comparable U.S. models by about $1,750. Analysts say the American market for attractively priced sport-utility vehicles could boom if the Sportage's quality is high enough. Until now, Kia has sold only its Sephia compact sedan in the U.S.

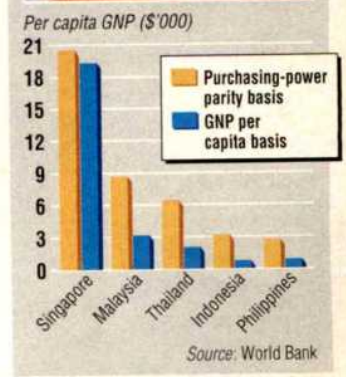
VIETNAM

Duties Increased

Hanoi raised taxes on a host of leading import items in a bid to curb a rising current-account deficit. Taxes on diesel fuel, aviation oil and kerosene have been increased to 40% from 10-20% previously. Import duties on colour TVs and assembled and semi-assembled motorbikes will rise by 5-13 percentage points, according to the Ministry of Finance.

Indicators

Two measures of living standards for Southeast Asian countries



REVIEW GRAPHIC/RAY LEUNG PHOTO: SINGAPORE GOVT.

PRICES & TRENDS

Commodities

Latest sale to Jan. 2		Latest	Previous week	3 months ago	Year ago
Gold	London (2)	382.50	380.90	392.95	391.40
Copper	New York (3)				
Current delivery (Jan.)		140.35	137.05	112.55	82.95
Mar. delivery		138.60			
Aluminium	London (7)				
Current delivery (Dec.)		1,951.50	1,915.50	1,592.50	1,122.50
Tin	Kuala Lumpur (1)	15.05	14.74	13.53	12.49
Cotton	New York (3)				
Current delivery (Mar.)		90.35	86.18	67.40	67.88
May delivery		89.96			
Rubber	Kuala Lumpur (8)				
Current delivery (Jan.)		390.00	386.00	349.50	214.00
Feb. delivery		390.00			
Jute	Dhaka (11)	338.00	338.00	338.00	260.00
Palm Oil	Kuala Lumpur (4)				
Current delivery (Jan.)		1,635.00	1,600.00	1,408.00	985.00
Mar. delivery		1,580.00			
Sugar	New York (3)				
Current delivery (Mar.)		15.17	14.96	12.40	10.77
May delivery		15.25			
Pepper	Singapore (9)				
Sarawak Asta blk 100%		355.00	335.00	360.00	230.00
Wheat	Chicago (5)				
Current delivery (Mar.)		401.40	399.60	403.40	378.20
May delivery		376.60			
Maize	Chicago (6)				
Current delivery (Mar.)		231.00	229.40	215.60	306.00
May delivery		238.20			
Rice	Bangkok (7)				
5% white fob		280.00	290.00	305.00	385.00
Soyabeans	Chicago (5)				
Current delivery (Jan.)		550.60	563.60	536.00	704.20
Mar. delivery		561.40			
Cocoa	New York (7)				
Current delivery (Mar.)		1,280.00	1,320.00	1,320.00	1,144.00
May delivery		1,297.00			
Coffee	New York (3)				
Current delivery (Mar.)		168.85	171.75	208.85	71.55
May delivery		170.30			
Petroleum					
Sumatran light	Tokyo (10)	16.45	16.40	16.40	14.00
Brent	London (10)	16.47	16.40	16.97	13.60

(1) M$ a kg (2) US$ an oz (3) US¢ a lb (4) M$ a tonne (5) US¢ a 60 lb bushel
(6) US¢ a 56 lb bushel (7) US$ a tonne (8) Int 1RSS M¢ a kg (9) S$ a 100 kg (10) US$ a barrel
(11) BWD, Chittagong/Mongla, US$ a tonne *Source*: Telerate, International Jute Organisation

Currencies *US$1 worth:*

Jan. 2		Spot rate†	Previous week†	3 months ago†	Year ago†
Australia	dollar	1.2888	1.2881	1.3497	1.4569
Bangladesh*	taka	40.20	40.20	40.20	39.75
Britain	pound	0.6408	0.6471	0.6333	0.6773
Brunei	dollar	1.4618	1.4638	1.4845	1.611
Burma**	kyat	5.8782	5.9172	5.8033	6.2567
Canada	dollar	1.4015	1.4015	1.344	1.314
France	franc	5.383	5.45	5.307	5.9325
Germany	mark	1.5596	1.577	1.554	1.7435
Hong Kong	dollar	7.7324	7.7365	7.7273	7.7248
India*	rupee	31.382	31.89	31.365	31.39
Indonesia	rupiah	2,201.00	2,200.00	2,182.00	2,100.00
Japan	yen	100.02	100.45	99.49	112.70
Macau*	pataca	8.10	8.10	8.10	8.10
Malaysia	dollar	2.5553	2.5625	2.5625	2.6855
Nepal*	rupee	49.40	49.40	49.35	46.3772
New Zealand	dollar	1.5613	1.5562	1.6589	1.7778
Pakistan	rupee	30.7292	30.7292	30.6194	30.1199
Papua N.G.	kina	0.8485	0.844	0.9203	0.9814
Philippines	peso	24.853	24.293	25.909	27.675
Singapore	dollar	1.4618	1.4638	1.4845	1.611
South Korea	won	788.70	790.50	798.20	807.20
Sri Lanka	rupee	48.384	48.113	47.965	48.043
Switzerland	franc	1.3176	1.3315	1.2933	1.493
Taiwan	NT dollar	26.298	26.449	26.21	26.633
Thailand	baht	25.10	25.12	25.01	25.58

Communist countries: China US$=Rmb 8.4462 HK$=Rmb 1.0914 Laos US$=Kip 721
Vietnam US$=Dong 11,073
Other: Commonwealth of Independent States US$=Rouble 3,512
SDR1=US$1.45985 ECU1=US$1.2259 S$1=M$1.75275 Cambodia US$=Riel 2,59

**Unofficial rate: US$1=Kyat 100-120 *Official rate †Middle rate
Source: Telerate for spot rates, Dao Heng Bank Ltd. for official rates

Currency Deposit and Bond Yields

Eurocurrency and Asian currency unit deposit rates (%)†

Jan. 2	1 month	3 months	6 months	12 months	10 year govt bonds yield
US$	5.8125	6.375	6.875	7.5625	7.79
Sterling	5.6875	6.00	6.375	7.1875	8.81
Yen	2.25	2.3125	2.375	2.5625	4.54
Swiss Fr.	3.8125	4.0625	4.25	4.5625	—
Dm	4.9375	5.00	5.25	5.625	7.68
A$	7.18	7.75	9.00	9.62	10.01
C$	5.62	6.75	7.50	8.31	9.10
ECU	5.8125	6.125	6.50	6.9375	8.69

†Offered rate *Source*: Telerate, Salomon Brothers

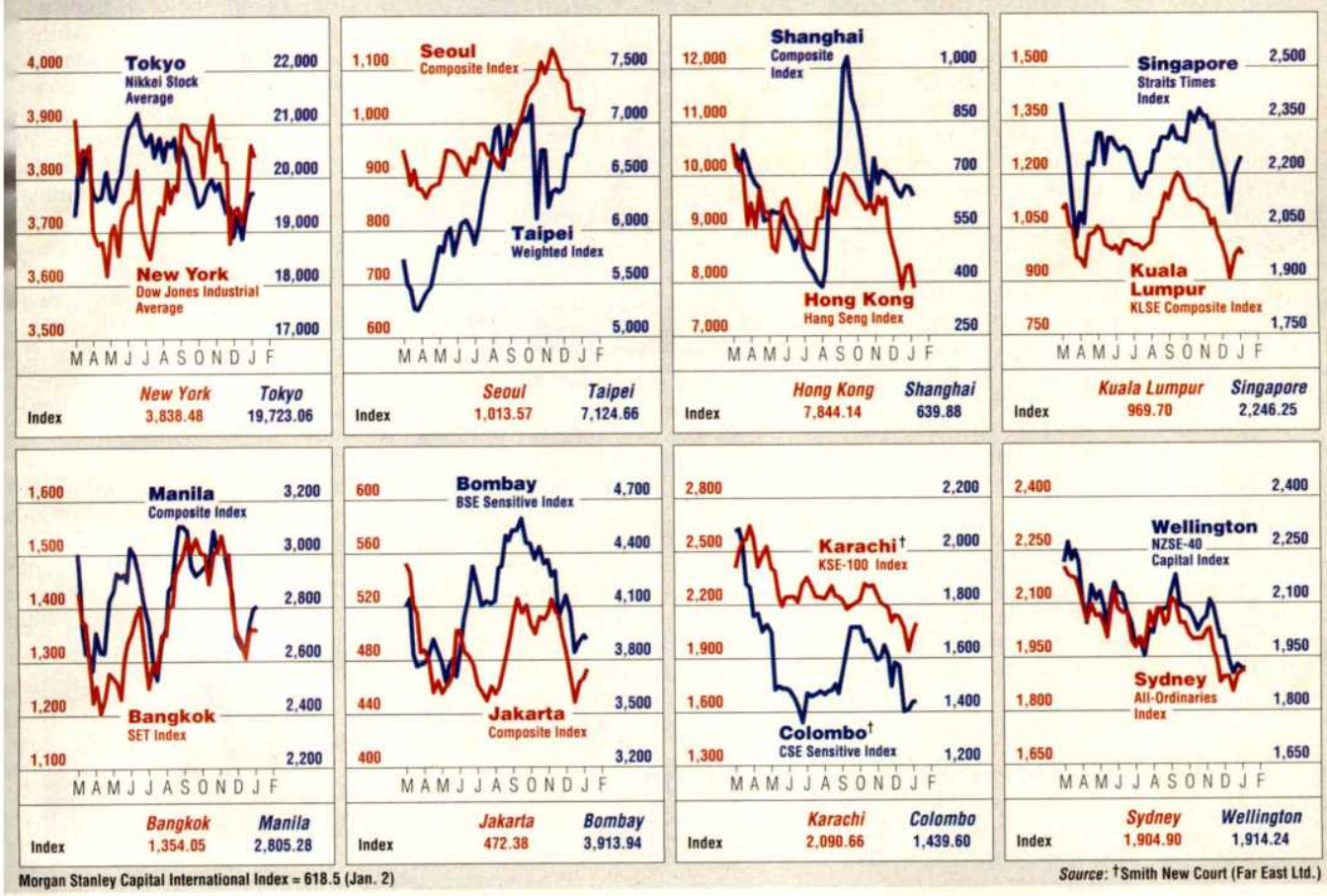
Economic Indicators, Selected Asian Countries

	Australia	China	Hong Kong	India	Indonesia	Japan	Malaysia
Economic Growth % (real) (1)							
1994	5.4	11.0	5.5	5.2(4)	7.0	0.7	8.6
1995	3.9	8.5	4.8	5.5(4)	7.2	1.9	8.3
International Reserves (5)							
Latest	US$11.89b (Sept)	US$33.10b (Jun)	US$43.00b (Dec 93)	US$19.17b (Sept)	US$11.31b (Aug)	US$120.67b (Sept)	US$30.21b (Jul)
Year earlier	US$11.40b	US$20.06b	US$35.25b (Dec 92)	US$7.99b	US$11.10b	US$98.80b	US$17.94b
Trade Balance (total merchandise)							
Latest 3 months	-US$1.74b (Jul-Sept)	+US$2.18b (Jul-Sept)	-US$2.42b (Sept-Nov)	-US$0.63b (Aug-Oct)	+US$2.55b(8) (Jun-Aug)	+US$27.30b (Aug-Oct)	+US$0.22b (May-Jul)
Previous 3 months	+US$0.29b	+US$0.49b	-US$2.16b	-US$0.79b	+US$1.86b	+US$30.18b	-US$0.52b
Year earlier	-US$0.19b	-US$3.01b	+US$0.57b	-US$0.18b	+US$1.95b	+US$30.94b	+US$0.63b
Exports (6)							
Latest 3 months	US$11.90b	US$31.05b	US$42.04b	US$6.30b	US$10.61b(8)	US$101.97b	US$14.73b
% change previous 3 months	-1.9	+6.0	+4.8	+6.2	+13.6	+6.0	+14.7
% change year earlier	-0.2	+28.8	+16.1	+25.0	+16.3	+10.1	+21.9
Imports (7)							
Latest 3 months	US$13.64b	US$28.87b	US$44.46b	US$6.93b	US$8.06b(8)	US$74.67b	US$14.51b
% change previous 3 months	+15.3	+0.3	+5.2	+3.0	+7.8	+13.1	+8.5
% change year earlier	+12.6	+6.5	+24.7	+33.0	+12.4	+21.1	+26.7
Consumer Prices							
Base	Jul 89-Jun 90=100	Sept 1993=100	Oct 89-Sept 90=100(2)	1982=100	Apr 88-Mar 89=100	1990=100	1990=100
Latest 3 months index average	111.9 (Jun-Sept)	127.3(11) (Sept)	150.9 (Sept-Nov)	287.0 (Aug-Oct)	160.4 (Aug-Oct)	107.4 (Aug-Oct)	117.2 (Jul-Sept)
% change previous 3 months	+0.6	n.a.	+2.2	+1.2	+2.5	+0.4	+0.3
% change year earlier	+7.9	+27.3	+8.4	+10.9	+9.3	+0.4	+3.3
Money Supply (3)							
Latest	A$251.0b(9) (Sept)	Rmb 3,322.66b (Jan-Mar)	HK$1,082.24b (Nov)	Rs 4.81t(9) (Oct)	Rps 165.46t (Oct)	¥522.74t (Sept)	M$155.86b (Sept)
% change previous month	+0.5	+10.5(10)	+2.2	+2.9	+1.7	+0.3	+1.8
% change year earlier	+7.9	+29.2	+1.8	+11.1	+19.3	+2.3	+21.5

(1) Official and other estimates of GDP (GNP in China & Japan for fiscal year) (2) Consumer Price Index A (3) M2 or currency plus bank deposits (4) To March (5) IMF definition of reserves minus gold except for Singapore

ockmarkets

■ ■ ■ Hong Kong plunges 5.6% on first day of trading in 1995 ■ ■ ■ Seoul, Kuala Lumpur drop slightly ■ ■ ■ Bangkok, Manila show little change ■ ■ ■ Singapore climbs moderately ■ ■ ■ Tokyo is quiet during week ended on January 3 ■ ■ ■



Morgan Stanley Capital International Index = 618.5 (Jan. 2)

Source: †Smith New Court (Far East Ltd.)

hilippines	Singapore	South Korea	Taiwan	Thailand
5 4	10.0 8.5	7.6 7.3	6.4 6.5	8.2 8.8
S$6.59b (Sept) S$4.13b	US$53.51b (Jul) US$44.29b	US$22.34b (Sept) US$19.67b	US$91.78b (Sept) US$84.92b	US$28.98b (Sept) US$24.40b
/S$2.14b (May-Jul) /S$1.78b /S$1.52b	-US$0.94b (Jun-Aug) -US$2.00b -US$2.99b	-US$1.61b (Aug-Oct) -US$1.20b +US$0.66b	+US$3.06b (Sept-Nov) +US$1.98b +US$2.42b	-US$2.24b (Aug-Oct) -US$2.46b -US$1.15b
S$3.42b 16.8 21.0	US$25.81b +11.4 +38.0	US$24.84b +3.8 +16.8	US$25.83b +12.0 +20.3	US$11.51b +4.5 +15.2
S$5.56b 18.1 27.9	US$26.75b +6.3 +23.3	US$26.44b +5.3 +28.4	US$22.77b +8.0 +19.5	US$13.75b +2.1 +23.3
988=100 97.1 (Jul-Sept) 2.5 9.2	Sept 87-Aug 88=100 120.0 (Jul-Sept) +1.0 +3.9	1990=100 130.8 (Sept-Nov) +0.3 +6.1	1991=100 114.4 (Aug-Oct) +2.3 +6.3	1986=100 144.2 (Aug-Oct) +1.9 +5.5
'487.67b(9) (Jul) 1.8 28.7	S$88.33b (Aug) +1.2 +14.0	Won 123.51t (Sept) -0.1 +10.9	NT$11.28t (Oct) +1.9 +15.2	Baht 2,658.2b (Sept) +1.6 +13.1

5) fob (7) cif (8) Including petroleum (9) M3 (10) % change over past 3 months (11) One month *Source*: Official statistics

Interest Rates (%)

Jan. 2	Prime lending	Interbank 1 month†	Interbank 3 months†	Interbank 6 months†
Australia	10.90	7.625	8.3125	9.1875
Britain	6.25	6.0625	6.67969	7.1875
Hong Kong	8.50	5.625	6.25	6.875
Indonesia	21.00	15.25	15.50	15.75
Japan	*4.90			
	**3.00	2.35938	2.4375	2.50
Malaysia	6.50	5.00	5.30	6.10
New Zealand	9.50	8.70	9.43	9.73
Philippines	14.50	10.9375	9.50	9.3125
Singapore	6.25	3.875	4.25	4.5625
South Korea	††13.85	—	—	—
Taiwan	7.625	—	—	—
Thailand	11.75	8.50	9.00	—
U.S.	8.50	6.00	6.50	7.00

*Long term **Short term ††Monetary Stabilisation Bond (1 year)
†Offered rate *Source*: Telerate and REVIEW Data

SHROFF

CHINA

Fuzzy Logic

The Year of the Pig may turn out to be less corpulent than hoped for. On the first day of trading after a three-day New Year's recess, the Shanghai Composite Index shed 1.23% of its value to close at 639.88. Volume shrivelled to just 195 million renminbi ($23 million) on the domestically traded A-share market, a mere 9% of the daily average for 1994.

The latest slump was the predictable result of a new regulation, announced in the last week of 1994 and effective at the start of 1995, barring same-day settlement of trades. By obliging punters to hold positions at least overnight, the bourse hopes to curb share-ramping by big-time speculators. With the sharks thus cleared out of the waters, smaller fish might come back to Shanghai's shoals. Or so the reasoning goes.

Shroff doubts it. Investors last year seemed more afraid of inflation than of rampers, at least judging from their wholesale flight to bond futures. Last month, daily trading volumes on the bond futures markets outstripped A shares by as much as 500-fold.

And no wonder, with inflation running to 27% for the year, the highest level since 1949, and the People's Bank of China, the country's central bank, raising its subsidies on deposit rates month after month. But this month, the PBOC tried something cannier: it raised the discount rate instead.

That's the rate the central bank charges commercial banks for overnight money — rather abstract in a country with virtually no commercial banking system. None of Shroff's banking friends even know just where China's discount rate stands, but anyway it now stands taller by 24 basis points or 0.24%.

That hardly seems enough to put it over the inflation rate. With negative real interest rates prevailing, it could be a while before China gets a grip on credit expansion. Yet the central bank balked at raising the actual lending rates to firms lest it further squeeze operating margins at the already hard-pressed public enterprises.

Hence the beauty of the discount-rate ploy: a way for the PBOC to signal its anti-inflationary earnestness without actually costing anybody money, a central-bank spokesman solemnly explained. If a tree falls in a forest unobserved, has it really fallen? With logic like this, who can blame punters for deserting equities for fixed-income derivatives? There would seem to be a future in bonds.

But the word hasn't yet reached Lhasa, Tibet's capital. There, the world's highest stock exchange, an electronically linked satellite floor of the Shanghai and Shenzhen bourses, finished up its first year of operation with a record daily turnover of 5 million renminbi. Perhaps such contrarianism requires a Buddhist mind-set: you've got to thrive on impermanence.

■ **Lincoln Kaye**

KUALA LUMPUR

Shining Star

It's always nice to own a media company, especially if you have political ambitions.

That's what the Malaysian Chinese Association, a senior party in Malaysia's ruling National Front government, thought more than 20 years ago when its investment arm, Huaren Holdings, started up Star Publications. The publishing group puts out *The Star*, Malaysia's leading English-language daily newspaper.

The investment has paid off handsomely. The newspaper earned pre-tax profits of M$43 million ($16.8 million) on revenues of M$153 million in 1993, up from profits of M$38 million the previous year.

The mix of profit and influence has made *The Star* irresistible to investors. Indeed, Shroff has learned that Ahmad Ghazali Kassim, a banker-turned-businessman, is interested in buying into it.

According to a source familiar with Ghazali's business plans, the politically well-connected entrepreneur who in late December bought three companies from Kejora, a state-owned agriculture unit, bidding to buy 10% of *The Star* for M$ million and has an option to buy an additional 10.5% stake.

Ghazali is a close associate of Tan S Muhyiddin Yassin, the chief minister Malaysia's southern Johor state. Muhyi din, who holds the No. 3 position in t United Malays National Organization, t country's dominant ruling party, is e pected to move up to the Cabinet aft the next general elections and is a dar horse candidate to take over as minist of finance.

Until now, the Malaysian Chine Association has resisted listing *The St* for fear of surrendering control of t influential tabloid to ethnic Malays. So t newspaper has remained in ethnic Ch nese hands, with Huaren holding a 58 stake and Tan Sri Vincent Tan's Berjay Industrial group holding another 20.5% The remaining shareholders include liste Kamunting Corp. (10%), an ethnic Ch nese-controlled property company, an 250 other private Chinese shareholders.

But now the source says the Mala sian Chinese Association is seekin "friendly" ethnic Malay partners, whic

will be in its favour as it will comply wit government guidelines requiring 30% o a listed company be held by bumiputras

Tan started the process, selling hi entire 20.5% stake to two Malay allies Tunku Datuk Adnan Tunku Mansur, a director of Berjaya and a member o Umno's Supreme Council, and Syed Man sor Syed Yassin, another Tan associate Tan received M$59.7 million, valuing each Star share at close to M$30. The source says Ghazali is buying Syed Mansor's stake at about M$52 per share with an option to purchase Adnan's stake as well.

The Star will then declare bonus and rights issues and sell Ghazali an additional 9.5% at par, the source says. The paper's listing proposal is currently being scrutinized by merchant bankers, the source claims, prior to submission to the Securities Commission for approval.

Listing would give a premium to *The Star*'s shares, which would be good for Ghazali. And having the paper in his corner can't hurt Muhyiddin either.

■ **S. Jayasankaran**

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JEFFREY LILLEY

PROFILE

Won Myong
South Korea

The Thinking Man

South Korean monk spreads Buddhism throughout former Soviet Union

By Jeffrey Lilley

The sound of people at work — loading, tapping, mixing and hauling — floated above the Ukrainian countryside. Standing in the middle of scaffolds, the Venerable Won Myong surveyed his latest project: the construction of the first Buddhist temple in Ukraine.

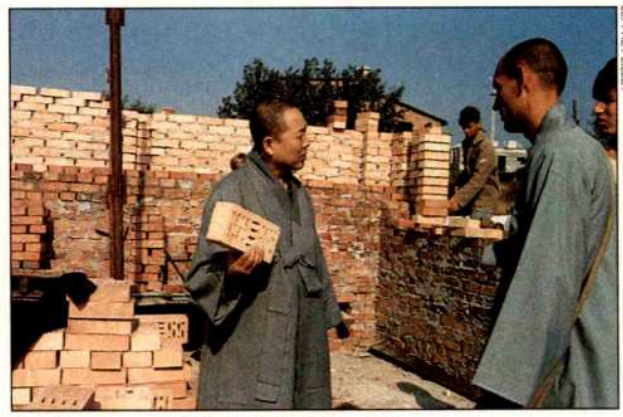
Since 1989, the monk from Seoul has made nearly 20 trips to the republics of the former Soviet Union. His travels have taken him from the Baltic Sea to the border with China. The fruits of his peripatetic lifestyle are four Buddhist centres, in Tula, Russia; Donetsk, Ukraine; Tashkent, Uzbekistan; and Bishkek, Kirghizia.

Criss-crossing the former Soviet Union by train, plane and bus, Won Myong has brought a new way of thinking about life to people hungry for spiritual guidance. "He works on the outskirts of the main centres, where monks don't go," says Volodya Brovkin, 22, a martial-arts teacher and member of the Buddhist community in Tula, 200 kilometres south of Moscow.

Won Myong was not always a globe-trotter. He joined the monastery at age 18; for many years, he was a meditation monk, sitting in one place, sometimes for up to 15 hours a day, working to clear his mind. During a three-month winter meditation retreat in the mountains of South Korea, he reached a turning point.

"We call it the seed of *in-yan* [fate or chance]," he explained during a recent stopover in Moscow. "I was meditating, and a recurring thought came to me. It was the English words, 'I hated to study as a child.' I couldn't get them out of my head." The monk interpreted the phrase as a message that he should learn the language. He packed his meagre belongings and headed for Seoul, where he studied English intensively for a year. Then, in 1981, he set out for Sri Lanka and Europe. Upon his return to South Korea five years later, he and a European Buddhist nun opened an international Buddhist centre.

The Lotus Lantern International Buddhist Centre aims to make Buddhism more acceptable to foreigners. It has become Korean Buddhism's main link with Russia, Ukraine and the countries of Central Asia. During his first trips to the Soviet Union, Won Myong found a people eager to embrace Buddhism after years of anti-religious propaganda.



JEFFREY LILLEY

Building Ukraine's first Buddhist temple.

Across Russia, there is a revival of Buddhism in traditional Buddhist places, such as Buryatia and Tuva near the border with Mongolia and Kalmkia in southern Russia. But more intriguing is the appeal of Buddhism to Russians and Ukrainians, whose cultures are devoid of references to Buddhism. Won Myong credits their interest to Buddhism's unobtrusive approach.

"Buddhism is a democratic religion. You come and see and practise. We never ask you to become a Buddhist. The aim is to develop yourself, to see yourself more clearly," says Won Myong.

One of Won Myong's most earnest a peals came from Sveta Filonenko, a 2 year-old computer programmer fro Donetsk. She travelled 30 hours by tra to meet the Korean monk in Leningrad 1991. Later, she wrote to the Lotus La tern, inviting the Korean monks to vis Donetsk. "She said she would make borscht," recalls Won Myong.

Countless bowls of borscht late Donetsk has become the centre of Bu dhism in Ukraine. A Ukrainian mon whom Won Myong ordained in 1993, liv at the centre and leads morning ar evening services. A community of abo 30 people helps run the centre ar are building a temple 40 kil metres away on a collective farr

Donetsk, a mining centre the former Soviet Unio has fallen on hard time "Whatever they have, they pr pare with warmth and love," Wc Myong says.

With his help, the communit has set up a business to transla and sell Buddhist texts; so fa though, revenues are minima Members, long on the desire t learn more about Buddhism, a short on entrepreneurial skills.

The young Won Myong wh detested English lessons while growin up in South Korea never envisioned tha he would one day facilitate the spread c Buddhism throughout the former Sovie Union. Now, he plans to build an inte national Buddhist centre on South Korea' Kanghwa Island, an offshoot of the cen tre in Seoul. He hopes it will attract monk from around the world. He smiles at hov his unusual journey has unfolded: "I wa a meditation monk. I didn't know any thing. But an idea changed my life."

Jeffrey Lilley is a writer who was based recent in Moscow.

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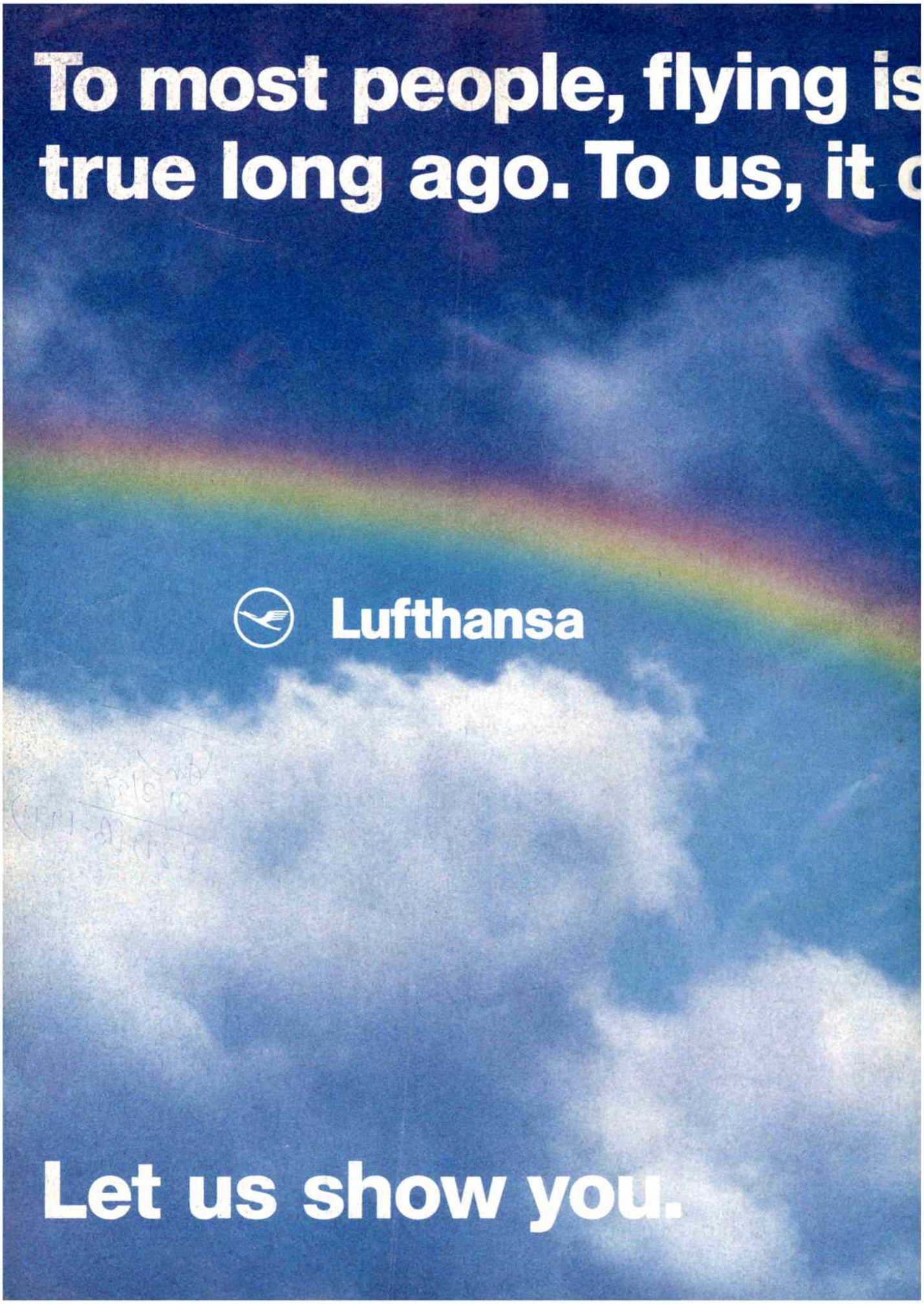
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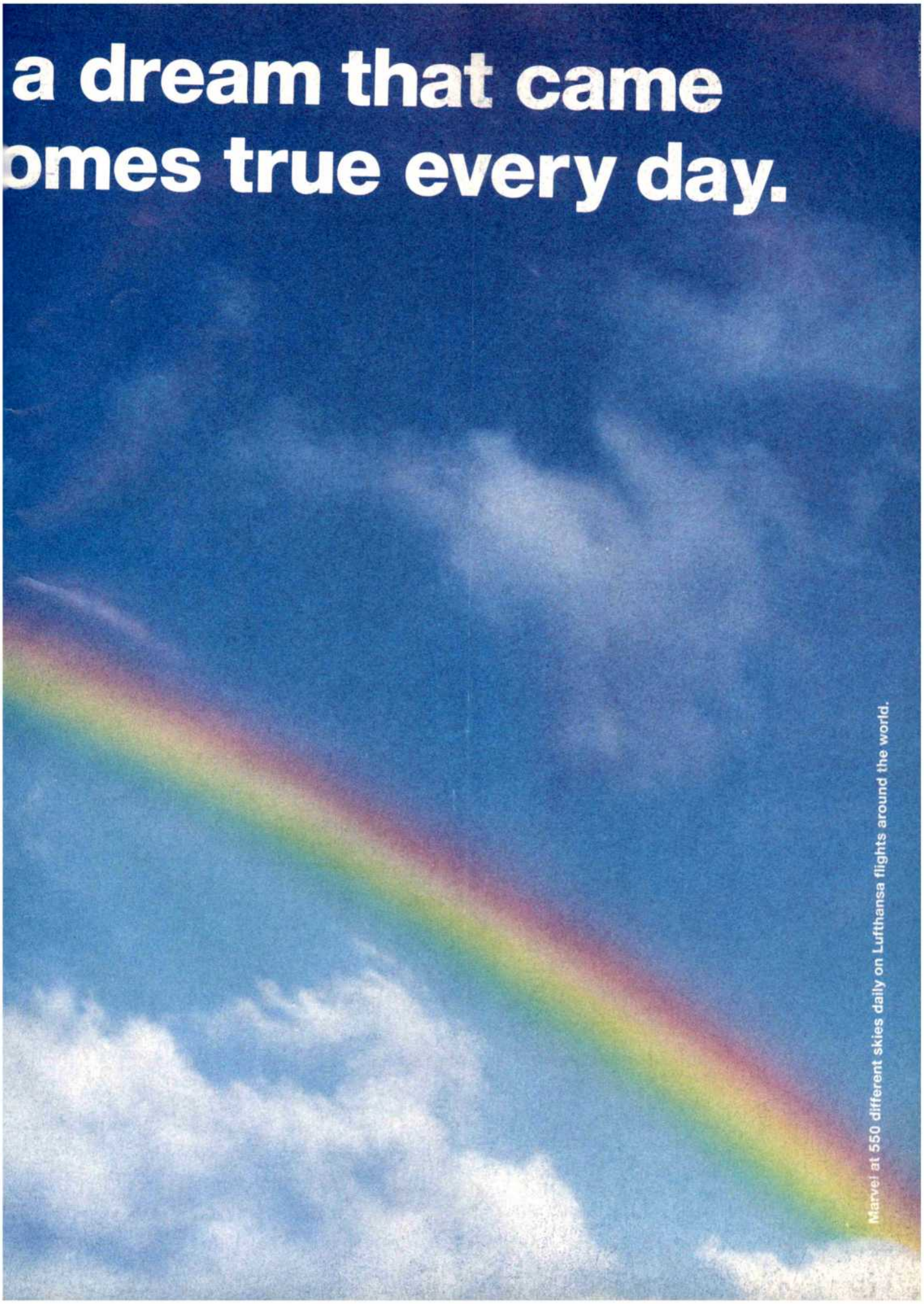
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LETTERS

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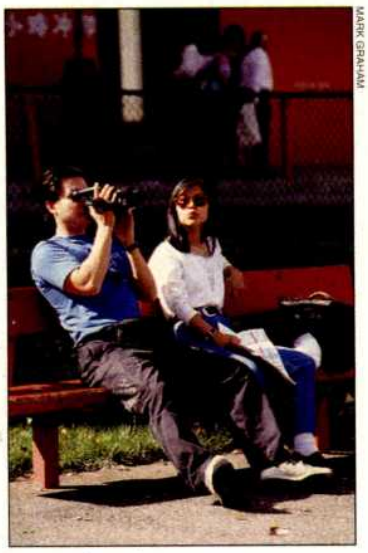
Speaking Terms

I was astonished by your article **Class Politics** in your December 1, 1994 issue, in which the author quoted me by name and went on to write that I "and other Chinese students regard the Taiwanese as rich and lazy."

The fact is that during the phone interview with the author I clearly articulated that students from Taiwan at the University of Southern California were diligent and respectable. I did not say a single negative word about students from Taiwan. And the reason that we do not have Taiwanese students in the Chinese Students and Scholars Association (which is CSSA, not CSA, as your story had it), is because the organization is by definition for students from mainland China. Nevertheless Taiwanese students come to our parties and we go to theirs.

ANDY MIAO
University of Southern California
Los Angeles


MARK GRAHAM

No tensions here.

Your article **Class Politics** was accompanied by a picture of two posters, side by side, on "a U.S. university bulletin board." One of the posters was advertising a Halloween dance run by the Massachusetts Institute of Technology's Association of Taiwanese Students. The other advertised a Halloween Dance party by MIT's Chinese Students and Scholars Association.

Well, I happen to be a long-time member of the former group. In fact, I probably put up the poster in the picture. Not only does our group not fit into the contention of the article, its membership and functions directly contradict what the author would have you believe of Taiwanese students.

MIT ATS was founded to promote social, culinary and cultural events for all students interested in Taiwan. Its membership is a hodgepodge of recent immigrants from both Taiwan and China and includes Chinese Americans. The organization sponsors radio shows to play popular Chinese songs, various types of get-togethers and a tremendously popular New Year Potluck banquet that has traditionally drawn people of all ethnic groups.

While the division between Taiwanese and Chinese students may be true of a visible minority at other universities, it is foreign to the MIT undergraduate Chinese population. The author of the article, Mahlon Meyer, mistook the acerbic rhetoric of a distinct minority among the immigrant students at a few schools and projected it indiscriminately onto all U.S. campuses.

ANDREW KAO
Massachusetts Institute of Technology
Cambridge, Massachusetts

Paradise Found

Shame on you. The dateline on your November 24, 1994 story **Trust Me** indicates that you attended celebrations marking Palau's independence from American trusteeship. Yet the article itself showed that you left your good manners at home.

Today Palau is one of the many nations seeking international investors, and it would have cost very little to have given the people of Palau some good publicity. What could you have said? Well, you might have pointed out that Palau is still protected by strong, mutually beneficial defence agreements with the U.S. That the country has a judicial system and constitution that has demonstrated time and again the country is ruled by law and not by special interests.

Finally, you could have told your readers what the U.S. Peace Corps thinks of Palau. More Peace Corps volunteers have chosen to stay or return to live in Palau than any other country or place they have been assigned in the world.

LEONARD J. DELUNAS
Bangkok

Tall Tales Indeed

Sometimes I find myself fed up with the ignorant Travellers' Tales sent in to Nury Vittachi. But I am even more fed up with the unconfirmed, irresponsible and sometimes offensive comments made by the senior writer himself. Take the latest double issue [Dec. 29, '94 & Jan. 5, '95].

First, please ask Vittachi to tell Hiro Nishinaga that the sign whose photograph he or she sent in about the "restaurant in Seattle," Sit Lap Sing, is no place for a meal. The name is that of a Chinese herbalist, indicated by the first three characters in the accompanying photo. The fourth character means "fall." To put it another way, it is obviously a sign for a herbal-therapist specializing in healing injuries from falls, fractures, contusions and strains. One finds these shops quite often in Chinese competition.

Second, in another item on the same page you list an ad from a German company featuring a Chinese calligrapher whom you suggest needs to be told he is writing up-side down. In fact, this calligrapher is something of a celebrity in the field and well-known for writing this way.

YU CHEN PANG
Taipei

Tongue Thaied

Your December 15, 1994 article **Vote of Confidence**, dealing with Gen. Suchinda Kraprayoon's appointment as honorary chairman of Telecom Holding, strikes me as rather superficial.

You quote, for example, the chairman of the Charoen Pokphand Group as citing Suchinda's "contributions" in bringing in the post-May 1992 interim government of Prime Minister Anand Panyarachun. Suchinda resigned after the May 1992 events and surely cannot be credited for bringing in Anand at that time. Most likely the Charoen Pokphand chairman was referring to bringing in the first Anand government, after the February 1991 coup.

The article further states that the "most sought after" people for appointment to corporate boards are "former members of the Anand administration," suggesting a "shift to former bureaucrats." Yet the examples you cite — former Foreign Minister Arsa Sarasin, now executive chairman of the mining group Padaeng Industries; and Anand himself, now chairman of Saha Union Industries — are weak. Both were with these companies before.

BERND C. SCHNOOR
Bangkok

Postal Information
Australia: Print Post Number PP 349181/00080. **U.K.:** Registered as a newspaper at the General Post Office. **U.S.A.:** The *Far Eastern Economic Review* (USPS 914-880) is published weekly, every Thursday, for $185.00 per year by Review Publishing Company Limited. U.S. Mailing Agent — YellowStone International Corp., 87 Burlews Court, Hackensack, NJ 07601. Toll Free Tel: 1-800-451-3410. Second-class postage paid at Hackensack NJ and additional mailing offices. **U.S. POSTMASTER:** send all address changes to Far Eastern Economic Review c/o YellowStone International Corp., 2375 Pratt Blvd., Elk Grove Village, IL 60007-5937.

Currency Note
All currency references in the REVIEW are to U.S. dollars unless otherwise indicated.

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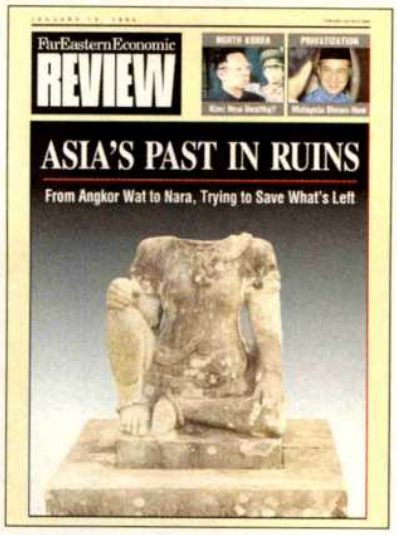

COVER STORY

Temples and ancient cities possess immense economic value. Many Asian nations are turning them into tourist sites, garnering significant foreign-exchange earnings. But as Heather A. Peters and Gordon Fairclough report, the past is also becoming a significant political issue as countries use archaeological "evidence" to justify nationalist claims. Page 34.

Cover photo by Murray Hiebert

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Blading of a gas turbine

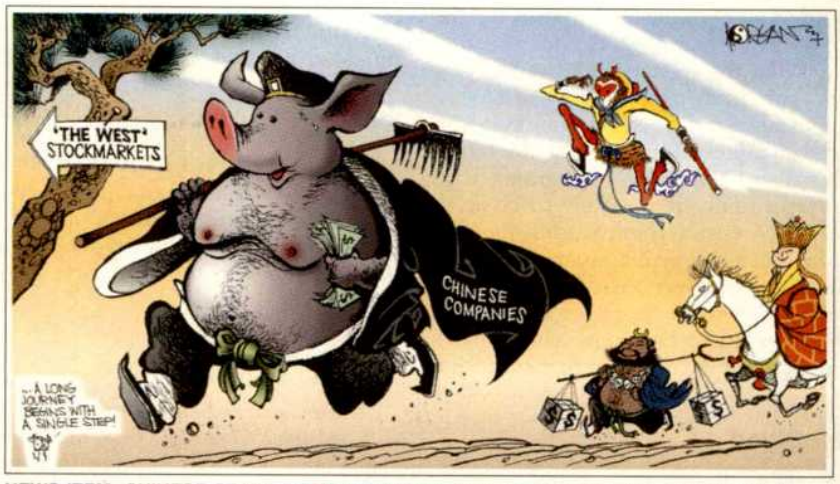
In Other Words

"Investment-grade countries don't break their promises."

James Penrose, assistant general counsel for Standard & Poor's Ratings Group, on the increasing number of contract disputes in China.

"Our forefathers picked a very bad place to build Yakutsk. Come back in 100 years and you won't find our city here."

Vasily Alekseyev, minister of ecology for the republic of Yakutia in Russia, on the capital city's risk of sinking as the Siberian permafrost melts.



NEWS ITEM: CHINESE STATE FIRMS INCREASINGLY LOOK TO INVEST THEIR PROFITS OUTSIDE THE COUNTRY.

"In New York, there are lots of scandals. Do you think they affect New York's reputation?"

A banker with a foreign bank in Shanghai, on the city's recent slew of stockmarket scandals.

"The equivalent of finding a small dinosaur still alive on earth."

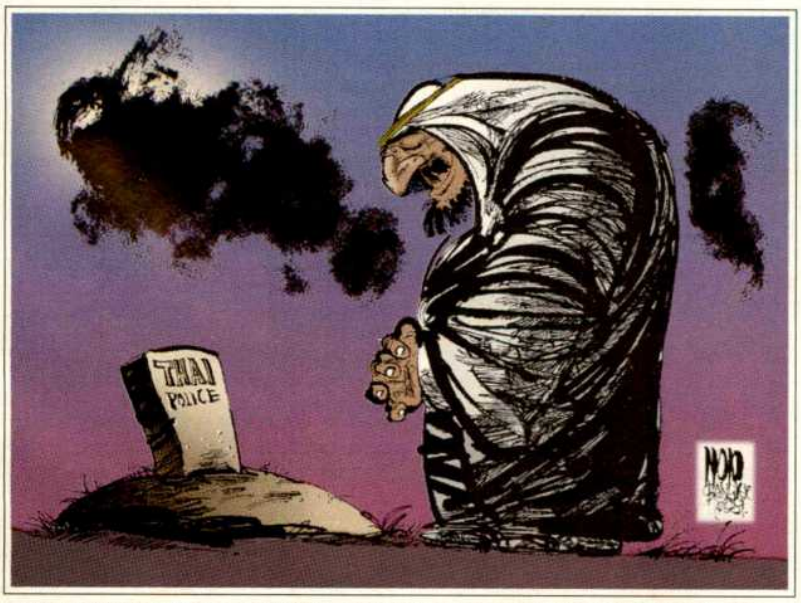
Carrick Chambers, director of Sydney's Royal Botanic Gardens, on a species of pine tree growing in a remote part of Wollemi National Park. The tree was believed to have been extinct for 150 million years.

"This kind of mistake often happens. With old people sometimes you can't tell."

A Taipei hospital official on the case of an 81-year-old grandmother, Peng Chen-mei. Peng's family was preparing her for her funeral when they realized she was still alive and rushed her to the hospital.

"This emperor is different and I like the way he's more open, but I wouldn't want it to go too far like the British royals."

Seventy-year-old Takashi Sekiguchi, during New Year's celebrations outside Tokyo's imperial palace, on Japanese Emperor Akihito's style.



NEWS ITEM: BANGKOK'S POLICE IS IMPLICATED IN THE DISAPPEARANCE OF $20 MILLION WORTH OF SAUDI JEWELLERY STOLEN IN 1989. Nop/The Bangkok Post

"It was the year when everybody started to respect me."

Seventeen-year-old Matthew Seto of Michigan, the son of a Chinese refugee, whose 33% return on shares from his mutual fund outperformed most other money managers during last year's bear market. Seto begins university this coming September.

"It should be open to ladies, too — as long as they keep quiet."

Kenneth Chin, a member of the Royal Hong Kong Jockey Club, on calls to open the male-only Quiet Room, or reading room, to female members. The club's all-male, 21-member voting panel has rejected the proposal.

Please share quotes you see: REVIEW, GPO Box 160, Hong Kong, or fax (852) 2503 1530.

INTELLIGENCE

Mix and Match

In December, Japan's Science and Technology Agency published figures for the country's plutonium stocks for the first time. What the agency didn't reveal was that, apart from Japanese-owned stocks, some American-owned plutonium is also stored in Japan. Estimates put the figure at between 100 and 1,000 kilograms, with the lower figure more likely to be accurate. The American plutonium is thought to have been shipped to Japan to help the state-owned Power Reactor & Nuclear Fuel Corp. activate its Fugen or Joyo experimental reactors at a time when Japan's own stocks of the metal were insufficient.

New Blood

A senior Indonesian army general is being tipped to replace former newspaper editor Sabam Siagian as the new ambassador to Australia. The staff officer, who is now close to retirement age, will probably figure in what is shaping up to be a major reshuffle of the Indonesian armed forces expected towards the end of this month. Most speculation in Jakarta, however, currently centres on whether another top army man, commander and presidential brother-in-law Gen. Wismoyo Arismunandar, will get an extension when he passes the mandatory retirement age of 55 on February 10.

TASOR SIAGIAN/JAKARTA-JAKARTA

Indonesian army chief Wismoyo.

Like Father

According to sources close to Malaysia's dominant United Malays National Organization, lawyer Hishamuddin Hussein Onn is expected to be picked by the party to contest the Sri Gading constituency in southern Johor state. The slot fell vacant after the early-January death of Datuk Yasin Kamari, the deputy minister of rural development. For many years, the member of parliament for Sri Gading was Hishamuddin's father, the late Tun Hussein Onn, Malaysia's third prime minister. Election as an MP will be the first upward move in what is expected to be a stellar political career for Hishamuddin, who won the highest number of votes in the 1993 party polls for second-echelon leaders of Umno's youth wing. The Umno sources add that Hishamuddin is likely to be appointed as a deputy minister after the next general elections.

Big Mac Comeback

Under a deal being worked out with Li Ka-shing's Cheung Kong, McDonald's will obtain a prime location in front of the Oriental Plaza being built in Wangfujin district in central Beijing. The cancellation of McDonald's 20-year lease, to allow Li to build the multi-storey office tower, had aroused international concern about Chinese business practices. To sweeten the deal, Li will also provide McDonald's another site in Beijing. "McDonald's has turned a setback to its advantage. It has got a great deal," says a financier familiar with the negotiations.

Passage to India

India's proposal for a get-together of navy brass and ships from countries around the Bay of Bengal and the Andaman Sea in February is gathering steam. So far, acceptances have been received from Thailand, Malaysia, Singapore, Indonesia and Vietnam. Bangladesh, however, has signalled it won't be sending a ship down from its navy base at Chittagong to the multinational rendezvous at Port Blair, capital of India's Andaman and Nicobar Islands. Nor has Burma responded. Indian analysts wonder whether the influence of China, a major arms supplier to both Bangladesh and Burma, might be behind the reluctance.

Homecoming

The ashes of Burmese drug trafficker Yang Muxian, who was executed by the Chinese in Kunming in October, have been brought back to his native Kokang district in northeastern Burma. A majestic tomb, surrounded by a stone wall, has been erected in Kokang to house the remains of Yang, who was convicted of smuggling several hundred kilograms of heroin to Yunnan.

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Published weekly, every Thursday, in Hong Kong since 1946.

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A wholly-owned subsidiary of Dow Jones and Company Incorporated.

Offices: 25/F, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong.
Postal address: GPO Box 160, Hong Kong.
Telephone: *General Business* 2508-4300, *Editorial* 2508-4381, *Subscription Customer Service* 2508-4338.
Fax: *General Business* 2503-1537, *Editorial* 2503-1530, *Subscription Customer Service* 2503-1549.
Telex: *General Business* 66452 REVCD HX, *Editorial* 75297 ECWEK HX.
Cable: REVIEW HONGKONG.

Printed by Dai Nippon Printing Co. (HK) Ltd., 220-248 Texaco Road, Tsuen Wan, N.T., Hong Kong.

ABC Member of the Audit Bureau of Circulations, London. No. 3

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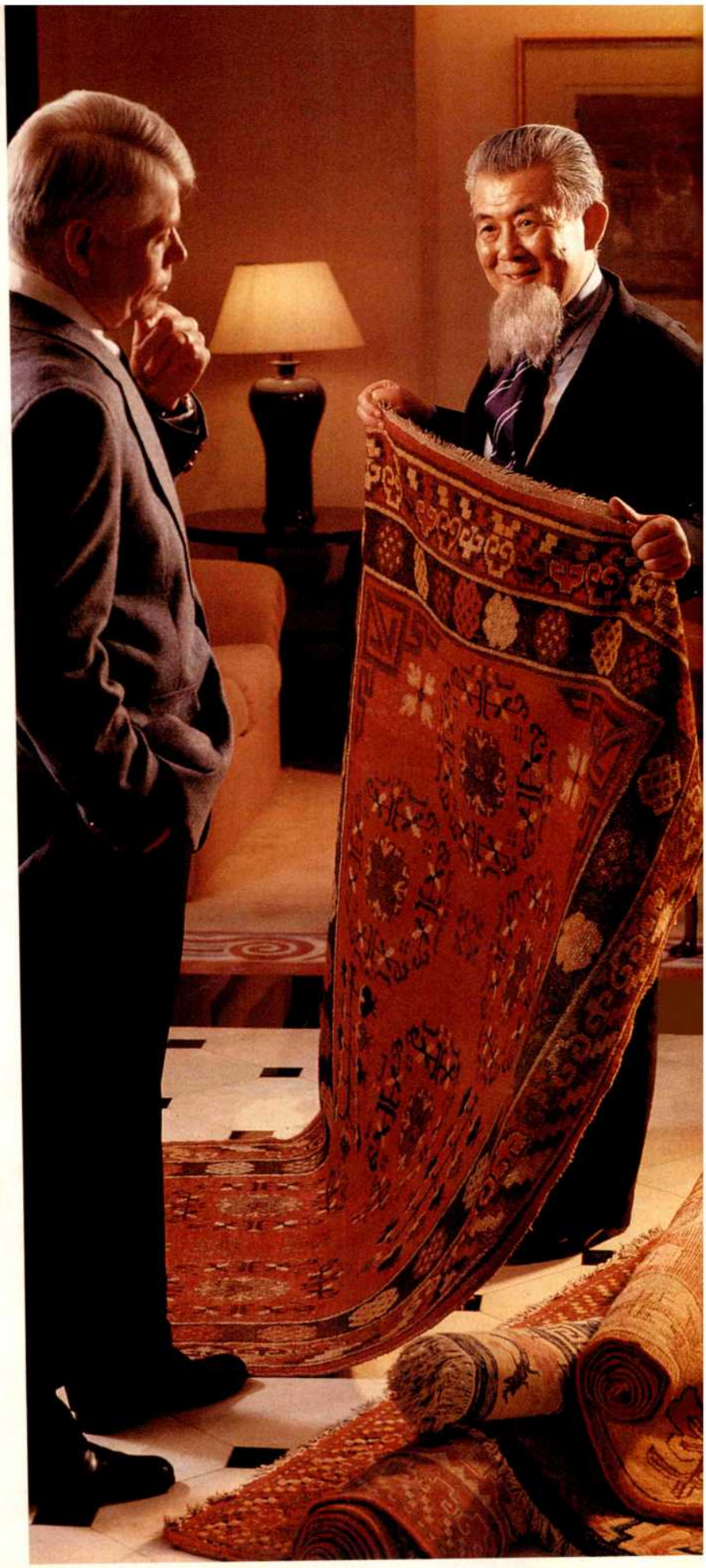

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Far Eastern Economic REVIEW
EDITORIAL

Pirates Kidnap Walt Disney

A few firms jeopardize China's economy

Say this for China's pirate firms: They know their business. Not long ago a visitor to one of the 29 compact-disc factories in Southern China accused of piracy was assured by his host that everything in stock was legitimate. But piled up in the factory were crates of laser-disc versions of Walt Disney's *The Lion King* — not yet available in its authorized version. Even worse: Many of China's pirated discs are now exported abroad.

These shenanigans have led the United States Government to conclude that China is not serious about enforcing intellectual-property rights. The result is that China faces sanctions on as much as $2.8 billion worth of exports to the U.S. unless it stops infringing copyrights and trademarks. As usual, it is not so much a matter of law as of will. At the top, Chinese leaders understand that the country must protect intellectual-property rights if it hopes to attract foreign technology and develop its own industry. But enforcement is complicated by what we'd call the rule of law with Chinese characteristics: Who's going to order the police on raids when the police report to the guilty parties? The interests of various Red Princelings in these pirate firms further explain the lack of enforcement here.

While we oppose sanctions as too blunt — innocent Hong Kong fears it would lose some $1.45 billion in re-export trade if the U.S. acts — it's not hard to see why others are not so sure. Party leaders in Beijing should note the change in mood among the foreign business community after the McDonald's incident, the Lehman Brothers lawsuit and so on. Most investors fought against the U.S. bid to link human rights with most-favoured-nation status. But China cannot count on that consensus this time, reflected perhaps in the $100 billion drop in foreign investment approvals in 1994 compared with 1993.

Our guess is that it will take the world a while to sort out the best way to handle disputes over intellectual-property rights, whether it involves computer software or Cantopop recordings. We would note, however, that China knows how to enforce the law when it wants. Last year Reebok worked with China's Administration for Industry and Commerce, leading to raids on 45 factories and the confiscation of some 120,000 pairs of counterfeit shoes. Though China has officially urged consumers to boycott pirated discs and books, a software and entertainment industry losing some $900 million each year to Chinese piracy will demand efforts to go after suppliers.

Not that this must all be by sticks and crackdowns. The U.S. side could sweeten the pot by helping China upgrade its law-enforcement activities in this area with better training and technology. It might also help if the affected industries came up with creative ways to help license the pirates into lawfulness. Finally, while the world can do only so much to change China's behaviour, it can at least maintain the standards of groups like the World Trade Organization, a powerful reminder to China that while membership has its privileges, it also has its responsibilities. ■

The India Boom?

A chance to beat out China

It wasn't all that long ago that Indian consumers were denied the benefits of invading commercialism. But now we see that two Indian women — one the newly crowned Miss Universe and the other Miss World — have signed as local spokeswomen for Coca-Cola and Pepsi Cola, respectively. Together the women will help put what Prime Minister P.V. Narasimha Rao calls a "human face" on his economic reforms. As the recent losses in local elections by Mr. Rao's ruling Congress Party demonstrate, Indian reform has reached a critical juncture.

China provides an immense opportunity. As we note in the editorial above, the bloom has come off the Chinese investment rose. Broken contracts, unpaid bills and rampant piracy have introduced a new sobriety about this market, and many investors are searching for greener pastures. As the world's second-largest potential giant, India naturally is getting a closer look.

Hong Kong investor Robert Lloyd George calls India the most promising of the large emerging markets, citing "less volatility than in China." Certainly India has its advantages. The Bombay Stock Exchange has been around for more a century — it's not "experimental," as Chinese Premier Li Peng termed Shanghai and Shenzhen. The rule of law is well-entrenched if cumbersome. Indian democracy, moreover, is a rugged creature. Having survived years of assassinations and socialism, it leaves foreign investors in a good position to judge the worst-case political risk. The same cannot be said of China.

The problem is that India has embraced capitalism with only one arm. While Mr. Rao defends his economic liberalization policy as "the best option available," Deng Xiaoping enthusiastically declares that "To get rich is glorious." On a recent visit to Calcutta, Singapore Prime Minister Goh Chok Tong urged "all of India," including its famous bureaucrats, to open its economy quickly; import tariffs, for example, remain an average 40%. The stakes of liberalization are equally enormous. Even though investment was down in China in 1994, it was still some $27.9 billion — dwarfing the $4.5 billion India has received since Rao's reforms began four years ago. Investors will be watching closely to see whether India takes advantage of China's missteps. ■

"Time I value above all things. It just gets more and more precious."

Without question, her career has been triumphantly consistent over the years. Yet Dame Kiri Te Kanawa readily admits that one thing has changed: her attitude to time.

"It is so beautifully expressed in Der Rosenkavalier," she says. "For at night The Marschallin passes through the house and stills all the clocks, wishing she could stop time running. And yet she knows she cannot; time melts away for her like snow."

Dame Kiri may well feel that time has speeded up year by year until January to January now flies.

Her punishing schedule fills her diary five years in advance.

Yet Dame Kiri remains her usual straightforward and uncompromising self. "To arrive early is unfortunate, but to be late is the rudest thing imaginable," she insists.

Then, relenting, she smiles and she adds, "sometimes I do not know whether I organise time, or time organises me."

One thing, however, remains clear. As a family woman, she finds that time is most precious to her – "when I'm leaving, when I have to say goodbye; that's the hardest part of all."

For seventeen years Dame Kiri has worn a Rolex and insists that she would never ever be without it.

Of her treasured gold Lady Datejust Chronometer with its diamond bezel she says, "it is very beautiful, very elegant, quite wonderful." It is gratifying indeed to hear that in an ever accelerating world, certain things at least remain constant.

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of Geneva

The Rolex Lady Datejust Chronometer in 18ct. gold with The President bracelet. Bezel and dial set with diamonds.

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REGIONAL BRIEFING

CHINA

Tall Order

In a front-page article in the official *People's Daily*, Chinese President Jiang Zemin ordered army officers to adhere to party discipline and shun graft. The blunt directive signalled an intensification of Beijing's anti-corruption campaign. At the same time, a top-level state enterprise manager and a senior bureaucrat went on trial in Shenzhen on charges of accepting nearly $2 million in bribes in an illegal import scam.

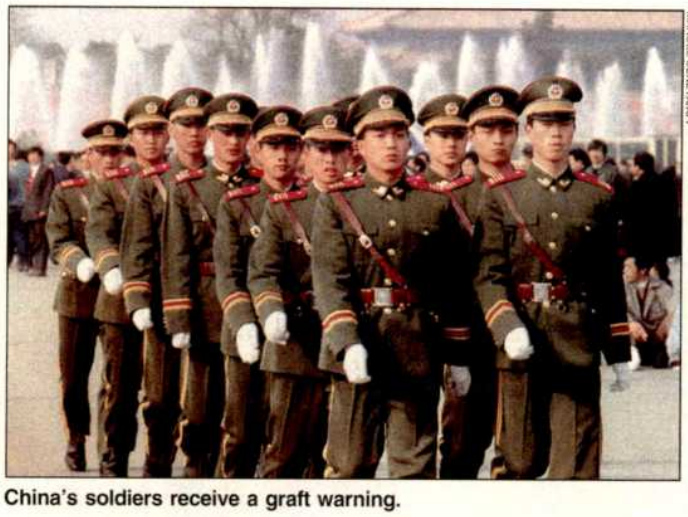
Activist Sentenced

A Shanghai court sentenced democracy activist Dai Xuezhong to three years' imprisonment on tax-evasion charges. Three other activists arrested along with Dai in May had already drawn three-year "labour re-education" sentences on political charges. Meanwhile, Amnesty International published China's internally circulated "black list" of 49 leading dissidents abroad who are barred from returning home to China.

INDONESIA

Timor Talks

Foreign ministers of Indonesia and Portugal agreed that the United Nations should sponsor talks between rival East Timorese factions who support and oppose integration with Jakarta. But, under an agreement mediated by UN Secretary-General Boutros Boutros-Ghali, the Timorese will not be allowed to address the crucial issue of the Indonesian-annexed territory's political future. In Dili, Indonesian security forces blockaded the University of East Timor after 30 youths staged a pro-independence protest outside the campus.



MANUEL CENETA/AFP

China's soldiers receive a graft warning.

NORTH KOREA

Back on Track

The warming of United States-North Korean relations resumed following the release of a downed U.S. airman. North Korea said it would lift restrictions on the entry of U.S. merchant shipping and "commodities" later this month, in line with its framework agreement with Washington. U.S., South Korean and Japanese officials meanwhile resumed talks in Washington on providing North Korea with safer nuclear technology.

VIETNAM

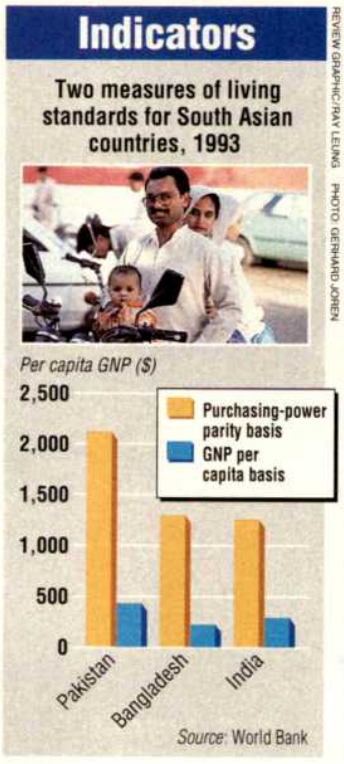
Monks Detained

Vietnam has detained the two senior leaders of the country's dissident Buddhist church, according to New York-based Human Rights Watch/Asia and overseas Vietnamese organizations. Patriarch Thich Huyen Quang of the Unified Buddhist Church was removed from the Hoi Phuoc pagoda in Quang Ngai province on December 29, HRW/Asia said. The deputy leader of the church, Thich Quang Do, was arrested at the Thanh Minh pagoda in Ho Chi Minh City five days later. The whereabouts of the two men are not known.

THAILAND

Fly United

The U.S., Thai and Singaporean air forces began 10 days of fighter-aircraft training in Thailand in early January. It was the first time that airmen from the three countries had flown together in a multilateral exercise. A U.S. air force officer says the event "represents a growing spirit of cooperation that augurs well for continued regional peace and stability."



REVIEW GRAPHIC/RAY LEUNG. PHOTO: GERHARD JOREN

JAPAN

Unwilling Guest

Tokyo has asked Washington not to invite Japan to attend celebrations being organized by the U.S. Government to mark the end of World War II, a senior official said. He said the likely presence of Russia was one reason for the government's decision. Japan has yet to sign a peace treaty with Russia because of the unresolved "Northern Territories" dispute.

TAIWAN

China Trade

Taiwan would open one or more of its ports to what amounts to direct trade with the Chinese mainland, under a plan approved by the cabinet on January 5. The step is part of a plan meant to promote the island as an operations centre for multinational corporations. The plan requires legislative action and eventual discussion with Beijing. President Lee Teng-hui wants fast implementation of economic policy goals.

Election Aftermath

Among the many cases of alleged vote-buying under investigation by the Ministry of Justice after the December elections, the most important is that of the newly elected deputy speaker of the Taiwan Provincial Assembly, Yang Wen-hsin. Prosecutors have confiscated financial records and subpoenaed members of Yang's wealthy family and campaign aides. They have also gathered written testimony claiming that Yang paid NT$10 million ($380,000) each to 10 provincial-assembly members to support his bid for the deputy-speakership.

Senate Majority Leader Dole (*left*), House Speaker Gingrich: no escape from foreign affairs.

FOREIGN RELATIONS

Collision Course

The Republican Congress's views on North Korea, the United Nations, and even free trade point towards a clash with Bill Clinton on Asia policy.

By Nigel Holloway in Washington and Melana K. Zyla in Hong Kong

The new United States Congress was elected in November, but it wasn't until January 9 that Republican leaders were able to find four senators willing to fill empty seats on the foreign relations committee.

Commerce committee, finance committee, banking committee — that's where the action lies according to staffers for the Republicans that filled the Capitol in the election landslide. The closest some of these politicians came to discussing foreign policy during their campaigns was calling for protection of the military base in their district. But just as Bill Clinton learned, the representatives and senators will learn that no matter how hard they try to focus on domestic politics, foreign affairs will creep into their daily business.

For the 104th Congress, that lesson's first teacher may be U.S. military pilot Bobby Hall. His helicopter was downed over North Korea on December 17. The possibility that it was shot down and the diplomatic price the White House paid North Korea for Hall's release has fired up the new Congress, according to a think tank analyst who has spoken with many of the new members. The Republican refrain is that in its Geneva agreement with Pyongyang, Washington gave away too much — promised diplomatic recognition, two nuclear reactors, and oil.

Even Frank Murkowski, the Alaska senator who by some press accounts came back from North Korea in December saying that the White House deal with Pyongyang is manageable, is now wrapping himself in a hard line. He has let it be known that the Senate energy committee he chairs will review Clinton's decision to give some $500 million in oil to North Korea over the next 10 years.

The White House must either play along with Congress or sneak the oil by it, because Congress holds the purse strings. So far, the White House has financed the January shipment of oil by taking money out of emergency Defence Department funds, a source said. And an administration official has said the White House may ask Kuwait for the oil.

Three other committees — intelligence, armed services, and foreign relations — have said they will hold hearings on North Korea. On January 6, Benjamin Gilman's first act as chairman of the House international relations committee was to hold an informal briefing on North Korea with State Department officials.

The problem for the Republicans is how hard to push for changes to the nuclear agreement without causing it to unravel, says Doug Bereuter, chairman of the House subcommittee on Asia and the Pacific. Bereuter says North Korea's com-

On Other Pages

16 **America First**

pliance should be monitored closely. Representative Scott McInnis of Colorado is said to be preparing a House resolution to that effect. His staff could not be reached for comment.

Bereuter used to be minority leader on the House subcommittee on international security and human rights. His staff members are said to be respected and experienced Asia hands, one with a strong background on security and Japan.

The chairmanship of the Senate foreign relations subcommittee on Asia Pacific may go to Olympia Snowe. The moderate former congresswoman has spoken out against U.S. involvement in United Nations peacekeeping missions. This anti-peacekeeping, anti-UN strain is strong in Republican circles, featuring prominently in the House of Representatives' bible for action called the "Contract For America."

The three communist regimes of China, North Korea and Vietnam can expect at least as tough a time in the new Congress as in the old one. And foreign aid hopefuls might not fare well either. The new chairman of the traditionally powerful Senate foreign relations committee, anti-communist firebrand Jesse Helms, has said he doesn't want to send U.S. dollars down "foreign ratholes." The Republicans are preparing a review of foreign aid, led by Sen. Mitch McConnell, and Helms's staff is said to be preparing a review of the money Congress gives to support decisions made by the State Department.

Democrat Stephen Solarz, who was to hold Bereuter's Asia job, has said that the 73-year-old Helms probably is in his last term, and that without the moderating pressure of a next election, "his ideological agenda will take over." But the Helmsian doomsday that old Democrats have painted may not be accurate.

For one thing, the power of Helms's committee may wane. And Helms has ceded the centre stage of foreign policy to three other senators. It was Murkowski of the energy committee who visited Pyongyang. Then, McConnell stole Helms's thunder by proposing a bill to abolish the U.S. Agency for International Development. And when Congress convened on January 4, it was Majority Leader Robert Dole who was the first to call for hearings on North Korea.

One niggling fact remains, though: Helms of textile-laden North Carolina is an avowed protectionist. He is not alone among the new Republicans. Many, and those in the House especially, owe power to voters of the populist, protectionist Ross Perot school. This should worry Asians.

Helms opposed the renewal of China's most-favoured-nation trade status, and he opposed Congress's recent passage of the new World Trade Organization. So did Dole at first. Helms even wrote a letter to the president, now public, saying: "If you agree to [the new trade accord] . . . It will have an exceedingly positive effect on my making certain that the administration's positions on all foreign policy matters during the 104th Congress will be considered fairly and fully."

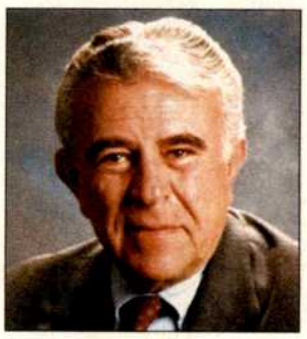
Democrats worry that the Senate foreign relations committee will give the White House's new foreign policy appointees an insurmountable grilling. But in a letter to the secretary of state made public by *The Asian Wall Street Journal*, Helms said he had, to date, delayed only seven of 247 Clinton nominees. While Clinton is scheduled to propose new ambassadors to Beijing, Jakarta and Bangkok in the next few months, he could avoid trouble before the 1996 election by keeping the list of appointments short.

China is expected to be a less important issue than North Korea this year. While they are unlikely to revive the most-favoured-nation question, Republicans with strong anti-Beijing views may try to trip up China in other ways, a human-rights lobbyist says. China's religious persecution is a bone of contention for Christopher Smith, the new chairman of the House subcommittee on human rights. And both the Senate and House foreign affairs chairmen are strong supporters of Tibet and Taiwan.

MANUEL CENETA/AFP

KEVIN LARKIN/AFP

Murkowski (*left*), Helms, Gilman (*below*): How hard will they push?



Clinton is likely to face growing pressure from the Republicans to upgrade relations with the government in Taipei. Murkowski, for one, has invited Taiwan President Lee Teng-hui to Anchorage, Alaska, for this year's meeting of the U.S.-Republic of China Business Council. Lee's acceptance would place Clinton in an awkward position. Last year, the White House bowed to China and prevented Lee from leaving the airport when his plane made a stopover in Hawaii. ■

FOREIGN RELATIONS

New Hands on The Wheel

Dole, Gingrich lead Republican takeover

The most important congressional voice in foreign policy will be that of Robert Dole, the new Senate majority leader. The Senate plays a much more important role in the conduct of foreign policy than the House of Representatives and Dole is now the most senior figure in the upper chamber. He wants to differentiate himself from House Speaker Newt Gingrich, and an easy way to do that is to attack President Bill Clinton's foreign policy, leaving Gingrich to concentrate on domestic matters.

There's also the prospect of the presidential election in 1996, with Dole a leading contender for the Republican nomination. As the election approaches, America's foreign policy will become more important to the electorate, as the contenders stake out their positions.

No sooner had the 104th Congress convened than Dole was making pronouncements on Bosnia, American involvement in United Nations peacekeeping and North Korea. He called for Senate hearings soon on the October deal with Pyongyang, which promises the totalitarian regime two new light-water reactors and diplomatic recognition in return for abandoning its existing nuclear programme.

Dole has three foreign-policy staffers; Gingrich has none. But that doesn't mean that the speaker isn't interested in foreign affairs, merely that it's less important for him than domestic policy. On trade issues, Gingrich is regarded as an internationalist. And according to a Japanese diplomat, Gingrich has told his embassy privately that he thinks "Japan is one of the most important countries," although he

also emphasizes that Japan must take more positive steps to open its market.

The chairmen of the foreign relations committee in the Senate and international relations committee in the House — Jesse Helms and Benjamin Gilman, respectively — exercise formal supervision over State Department policies. This may sound impressive, but it gives them little actual power. The Senate committee scrutinizes treaties and endorses or blocks ambassadorial appointments. But the real influence over, say, the purse strings is held in the appropriations committees, as well as in the committees on finance, trade, and ways and means. The committees on armed services and on intelligence are often watched more closely than is that of foreign relations.

That said, Helms and Gilman will still be able to scrutinize the conduct of foreign policy, but the degree of their influence will depend on the subjects they intend to consider in their hearings and on the witnesses they call. Their personalities are as different as chalk and cheese: Helms is an acerbic southerner, Gilman a soft-spoken, moderate Republican from a town just north of New York City.

Helms's Asian interests — or antagonisms — include the communist regimes of China, North Korea and Vietnam. Both he and Gilman have a very high regard for the Dalai Lama, the spiritual leader of Tibetans and a thorn in the side of Beijing.

Helms has a witheringly low opinion of both foreign aid and the UN. Gilman, by contrast, supports both, although he's keen to cut financial waste. Gilman opposed Clinton's decision last May to decouple the issue of human rights from China's preferential trading status. And he opposed the lifting of the U.S. trade embargo against Vietnam last February until Clinton could certify that Hanoi was fully cooperating on the issue of U.S. servicemen missing in action during the Vietnam War.

Doug Bereuter, the chairman of the House Asia-Pacific subcommittee under Gilman, was formerly the ranking Republican on another subcommittee, so his Asian experience is slight. A former academic from Nebraska, Bereuter is expected to focus on economic issues, particularly those involving farm products.

With so little specialist knowledge of Asia among the two committees dealing with foreign relations, much of the influence on policy towards the region is likely to be wielded in other committees. Among those who are expected to have an important role is Sen. Frank Murkowski of Alaska, the new chairman of the energy committee. Murkowski is expected to use his new position to scrutinize the question of oil shipments to North Korea and to try to boost trade ties with Taiwan. He would also like to remove the remaining economic sanctions on China that were imposed after the military crackdown in Tiananmen Square in 1989.

The two Oregon senators, Bob Packwood and Mark Hatfield, can be expected to take a keen interest in Asia due to the fact that their state is located on the Pacific coast of the U.S. They are, respectively, chairmen of the powerful appropriations and commerce committees. And under appropriations, the foreign operations subcommittee is also an important player in Asia policy. The new chairman, Mitch McConnell of Kentucky, has already made his mark by calling for the abolition of the Agency for International Development, the main U.S. disburser of foreign aid. ■ **Nigel Holloway**

McConnell: foreign-aid reservations.

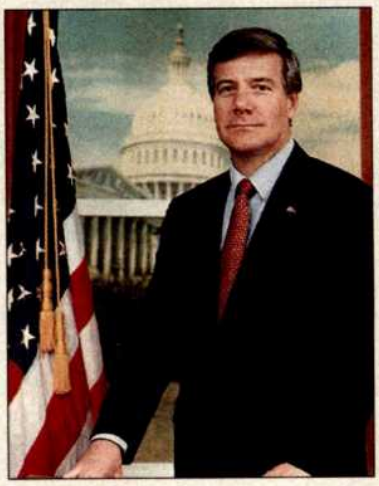
America First

Under three presidents, a Democratic-controlled Congress was the driving force for trade initiatives against Japan. With the arrival of the Republicans, Tokyo may justifiably hope for a break.

Judging by the mood of the new Congress, however, the Japanese shouldn't get their hopes up too high. While the Democrats' priority might be to protect U.S. workers, and the Republican goal to promote free trade, both want to see Japan's markets open wider.

One House Democratic staffer suggests that the new Republican Congress may be less confrontational towards Japan. "They don't like the sledgehammer approach the Democrats have been fond of," he says. It was a Democratic Congress that passed the Super 301 clause of the Trade Act, which mandates the president to take unilateral action against foreign countries deemed to engage in unfair trading practices.

But Doug Bereuter, the new chairman of the House international relations subcommittee on Asia and the Pacific, doesn't sound like he plans to walk softly. President Bill Clinton's "framework agreement" on trade with Japan "has almost nothing to show for itself," asserts the Republican congressman, whose committee has partial jurisdiction over trade matters. "The U.S. should be more aggressive in pursuing the market opening of Japan."


Bereuter: No pushover.

Japan had a record $59 billion trade surplus with the U.S. in 1993, and the 1994 figure is projected to be even higher. A Japanese diplomat says he doesn't expect a congressional backlash. But he acknowledges that there's "an undercurrent on Capitol Hill about the huge trade imbalance with Japan. This could come to the surface at any time."

On Vietnam, President Clinton may have to move even more cautiously on normalizing diplomatic relations. Benjamin Gilman, the new chairman of the House international relations committee, has strongly urged Clinton to gain Hanoi's full cooperation in accounting for missing U.S. troops.

In South Asia, America's trade relations with India are blossoming (*see story on page 50*) and the Republicans are likely to want that trend to continue. During the Cold War, the Republicans supported Pakistan and criticized India for its relationship with the former Soviet Union. But today, there are many new Republicans in Congress. "I don't think the Cold War is a big issue for them," says an Indian diplomat. ■ **Nigel Holloway**

Sign of the Times

Bangkok seeks review of key treaty with Washington

By Michael Vatikiotis in Bangkok

The lunch-time seating plan at November's Apec summit in Indonesia placed U.S. President Bill Clinton next to Thai Prime Minister Chuan Leekpai. Reportedly, they talked about the food. But to judge from recent ripples in the bilateral relationship, there was more than small talk to be made.

The past year has seen Thailand adopt a markedly more assertive tone in a relationship once considered one of the closest and most reliable the United States had in the region. Buoyed by its strong economy and a more stable political climate, Thailand wants to put its U.S. ties on more equal terms. In the words of a senior Thai diplomat, that means "what America wants is not necessarily what it gets."

Compelling evidence for this sea-change comes in the form of a bid by Thailand to renegotiate a 28-year-old treaty of amity with the U.S. Washington says the treaty, which deals exclusively with commercial issues — Thailand isn't reopening a separate agreement on security relations — is fine as it is. But according to Sarasin Viraphol, a senior Thai Foreign Ministry official: "The treaty merits a review in the light of the years that have gone by."

Signed in 1967, the treaty grants U.S. companies the same legal rights as are accorded to Thai businesses, as well as the right to 100% ownership of their Thai subsidiaries. American firms are the only foreign companies accorded those privileges in Thailand.

As that indicates, the terms of the treaty were very much in Washington's favour. When the agreement was drafted, Thailand was considered a vulnerable "domino," threatened by communism and needing American protection.

Today, Thailand perceives itself as an economic dynamo, and the communist threat has evaporated. But American commercial interests in the region have intensified. As a mark of how important Washington considers preserving the commercial concessions in the treaty, Clinton wrote to Chuan on December 29, saying: "We believe the treaty is the cornerstone of our economic relationship."

The Thai Government's response has been amiable but unyielding on the need for a review of the treaty. "We are not taking a hard-line position. Not everything has to be amended," explains government spokesman Akapol Sorasuchart. Akapol insists that Bangkok's low-key pursuit of a renegotiated treaty hasn't upset cordial ties with Washington.

But Thailand's less passive stance has already made it harder for the U.S. to get what it wants in other areas. In November, Thailand declined an American request to position six ships stocked with military supplies in the Gulf of Thailand. The polite rebuff has left a hole in U.S. regional defence plans, and so far none of Thailand's Asean neighbours appears willing to come forward to offer an alternative site.

UPALI ATTURUGIRIA/AFP

MEK NOIPITAK/AFP

Joint U.S.-Thai army exercise. *Inset*: Chuan got a letter from Clinton.

Thai officials see the refusal in a broader bilateral context. "If the treaty of amity is not renegotiated, it puts further defence cooperation in doubt," says a Thai official who didn't want to be named.

American military officials also detect bruised feelings in the Thai military because of U.S. criticism of its role in the 1992 crackdown on pro-democracy demonstrations. "The military is not well-disposed to the U.S., and is moving away from its traditional reliance on the U.S. as a source of arms," an Asean defence official in Bangkok says.

Indeed, while American officials blamed the weakness of Chuan's five-party coalition for rejection of the ships request, some Thai observers detect a coolness in relations with the U.S. They say the relationship has been shaken by the threat of trade sanctions from Washington since the mid-1980s, and more recently by accusations in the U.S. Congress about Thai support for the Khmer Rouge.

Clinton went some way to soothe these concerns in his year-end letter to Chuan. He pointed out that funds for the International Military Education and Training programme will be disbursed in 1995 in recognition of the Thai military's efforts to cut its links with the Khmer Rouge. The threat of trade sanctions against Thailand has also been downgraded in recognition of efforts to address concerns on intellectual-property protection.

But Clinton's soothing words come ahead of the opening of the new Republican-dominated Congress, which convened in Washington in early January. The new Congress is unlikely to look kindly on attempts to equalize bilateral relations if the U.S. stands to lose commercial advantage.

American officials have put a brave face on Bangkok's refusal of the storage request. Pointing out that the U.S. holds more than three dozen military exercises a year in Thailand, U.S. Secretary of State Warren Christopher expressed disappointment to Thai officials on a visit to Bangkok in November. "Frankly we were surprised," says Winston Lord, U.S. assistant secretary of state for East Asian affairs. Since the U.S. was forced to quit its naval base at Subic Bay in the Philippines, he says, "everyone [in Asean] has opened up facilities to us."

The U.S. plan had been to store military equipment on merchant ships so that it would be quickly available in an emergency. Thailand wasn't necessarily ill-disposed to the idea in principle, sources in Bangkok say, but apparently it was miffed by the way it was proposed. Washington's decision to make the proposal public in the interests of transparency meant that news appeared in the press even before the Thai Government was approached. This gave the impression that Washington took a "yes" for granted. According to the Asean defence official: "If the Americans had kept the proposal under wraps, or disguised it, Thailand's response might have been positive."

There was more than protocol at stake here. The U.S. has stressed that arms stored in Thai waters would primarily be

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Dresdner Bank

used for rapid deployment to potential zones of conflict in the Middle East and the Korean peninsula — Thailand being mid-way between these two areas. But diplomatic sources believe Washington's policy of transparency made Bangkok nervous about how the move would be read in China. "A primary concern for Thailand is how China would react," says a regional defence attache in Bangkok.

Significantly, a Thai defence white paper published last year noted that the U.S. is "aware that some disputes in Southeast Asia could involve the use of military force, such as the conflicting claims of China, Vietnam, Taiwan and some Asean countries over the Spratly Islands." The white paper also posited as a U.S. concern "the development of Chinese military power [that] could affect the sea lines of communication through the Strait of Malacca."

U.S. officials prefer to stress the global rather than regional thinking behind what they call the "Equipment Aboard Ships" programme. However, a U.S. military official added that the "EAS is meant to act as a presence factor in the region, as a deterrent. The arms are not targeted against any country."

The concept grew out of the Gulf War experience and the need to move men and equipment rapidly without having to maintain expensive, far-flung bases that keep U.S. troops away from home. U.S. military sources point out that the ships, about six in all, would be chartered merchant vessels crewed by civilians, and the equipment would be stored and inactive.

What frustrates Washington is that the region clearly recognizes the need for an American presence, yet is not rushing forward to offer facilities. U.S. forces have been granted access to ship-repair facilities in Malaysia, and, more covertly, to refuelling stops in staunchly non-aligned Indonesia. But given the openness with which the U.S. wants to conduct the EAS programme, it seems unlikely that any other Asean country will come forward as an alternative to Thailand.

Indonesia and Malaysia have already publicly said they would refuse. A Singaporean defence official claims that Singapore has no space for the ships. Asean officials feel it is unlikely that the Philippines could be seen hosting U.S. materiel, even in mothballs aboard cargo ships, so soon after terminating the bases agreement. And despite Brunei's recent tilt towards closer military cooperation with the U.S., observers believe its military ties with Britain remain stronger.

Given these constraints, where does the U.S. stand? In November, Christopher said he hoped Thailand would reconsider. Thai diplomatic sources say they expect Washington to come back with "a more refined approach." ■

SRI LANKA

GREG GIRARD

Sri Lanka army patrol: Peace hopes rise again.

Truce With The Tigers

A step to solve the ethnic Tamil problem

By Mervyn de Silva in Colombo

For President Chandrika Kumaratunga, it was a day of satisfaction mixed with irony. On January 8, guns fell silent across the troubled northeast of Sri Lanka as a ceasefire with the insurgent Tamil Tigers went into effect. The day also marked the 96th birth anniversary of the president's father, Prime Minister Solomon Bandaranaike, assassinated in 1959, a year after his attempt to resolve the issue of the Tamils.

(In 1958, Bandaranaike had assured the Tamil minority they and their language had a proper place in the country. But in the early 1980s, linguistic nationalism sparked a separatist rebellion by the Liberation Tigers of Tamil Eelam.)

With the truce in place, the 50-year-old Kumaratunga can now grapple with what is commonly known as the "national question" in Sri Lanka: meeting the political aspirations of the minority Tamils. Having defied solution for several decades the task is as daunting as it has become urgent.

In the past 12 years, the Tamil conflict has cost more than 30,000 lives and it now drains the exchequer of around $400 million annually. There have been many false starts to peace talks in the past, with the last truce crumbled in 1989-90. Since then attempts at negotiation have been stymied by political assassinations — notably those of President Ranasinghe Premadasa and Lalith Athulathmudali, a former national-security minister. The Tigers were blamed for these murders, though they disclaimed responsibility.

Hopes rose last year as Kumaratunga rode to power in the August general election and the later presidential polls on a plank of negotiating with the Tamils. But during the October presidential campaign, opposition candidate Gamini Dissanayake was murdered. As suspicion again fell on the Tigers, the government was forced briefly to suspend its overtures to the rebels. On January 6, Kumaratunga proclaimed to Parliament: "It would hopefully be the dawn of a new era."

The ceasefire will leave the forces in their existing positions with 600 metres of no man's land separating the two sides. The truce is to be monitored by six committees based in Jaffna, Mannar, Mullaitivu and Vavuniya in the north and Trincomalee and Batticaloa in the east. Each five-man committee will be chaired by a foreign observer and have two representatives each from the government and the Tamil side. Canada, Norway and the Netherlands have sent monitors with military or police backgrounds to supervise the ceasefire. The presence of independent foreign observers lends credence to the expectation that the ceasefire will hold. More important, the Colombo government has agreed on a 40 billion-rupee ($816 million) rehabilitation plan for the northern region, which has borne the brunt of the 12-year conflict.

While the cost of rehabilitation will be spread over many years, the president noted that peace could yield an immediate economic dividend. "The fundamental obstacle to increased foreign investment is Sri Lanka's costly and prolonged ethnic conflict," she told Parliament. The president, who is also the finance minister, added: "Every effort will be made in 1995 to contain the fiscal deficit below 8% of GDP."

The truce has been welcomed by most opposition groups and a conflict-weary public, thanks largely to the strong economic rationale for peace. Even the United National Party, which ruled for 17 years until August and failed in tackling the Tamil insurgency, has cautiously approved the ceasefire. The opposition is probably waiting for the details of power-sharing with the Tamils, which have yet to be proposed. Kumaratunga will also have to sell the political package to the majority Sinhalese. As an opposition source puts it: "A ceasefire is easy, but a political solution to the national question is not." ■

Trading Places

Khmer Rouge weakened by defections

By Michael Hayes in Siem Reap and Preah Vihear provinces

The dry season is usually fruitful for Phnom Penh governments battling Khmer Rouge insurgents. But this one is providing a particularly rich harvest, with hundreds of defectors pouring out of jungles all over the country to give up the fight.

The government claims nearly 2,000 Khmer Rouge have defected in the past three weeks, drawn by an amnesty programme that expires on January 15. Many of the recent defectors say they were alienated by scorched-earth tactics adopted by the extreme Marxist faction.

The wave of defections brings to almost 7,000 the number of Khmer Rouge guerillas and local militia who have trundled over to Royal Cambodian Armed Forces outposts in the past year to lay down their ageing and often rusty weapons, the government says.

The figures are impossible to verify and, in fact, some of the earliest defectors returned to the jungle as a result of the government's initial mishandling of the programme. But diplomats say that overall, the government's carrot-and-stick approach to dealing with the Khmer Rouge finally seems to be bearing fruit.

DOUG NIVEN/AFP

Khmer Rouge defectors: logistical crisis.

"We think it's working, and that Khmer Rouge strength is being reduced," says Australia's ambassador to Phnom Penh, Tony Kevin. But he estimates that only 25-50% of the defectors are trained soldiers, with the rest being porters, forced conscripts or local villagers.

Most estimates put the Khmer Rouge's remaining strength at 5,000-10,000 hardcore cadres and troops, which means it's still a force to be reckoned with. And the defector programme itself is being strained by its own success, with Phnom Penh appealing desperately for international aid to feed defectors and thousands of new refugees from Khmer Rouge-controlled areas.

But the mass defections have clearly emboldened the government army, which is redeploying a large number of troops to Khmer Rouge-dominated Preah Vihear province, in the north (*see accompanying story*).

The government has used a mix of methods to entice Khmer Rouge to cross over. Army helicopters dropped thousands of leaflets over villages controlled by the faction, and government radio regularly broadcast appeals. Early defectors were rushed through reintegration camps and then sent back home to encourage friends and relatives to give up.

Equally important, according to defectors, is a recent directive from the Khmer Rouge leadership ordering cadres to engage in what amounts to a scorched-earth policy.

"I can't believe them now because they tell us to burn houses, kill buffalo and kill villagers," says Moung Seng, 48, a Khmer Rouge commander who defected with 40 of his men from Division 912 in

Temple Test

When notorious Khmer Rouge Gen. Ta Mok visits the Preah Vihear temple, it's likely he approaches it from the Thai side. That's because reaching it from the Cambodian side means scrambling up the jungle-clad face of a mine-strewn mountain, and Ta Mok has only one leg.

For the same reason, if the Cambodian Government army wants to recapture the temple from Ta Mok's Khmer Rouge guerillas, it will need Thai cooperation. The temple is in Cambodian territory — as the International Court of Justice ruled in the early 1960s — but it's much more accessible from nearby Thailand.

Recapturing the temple from the Khmer Rouge is precisely what the government would like to do, according to a senior Phnom Penh official. If such an assault takes place, it could be a new test of Thailand's assertion that it has stopped aiding the guerillas and is mending fences with Phnom Penh.

The government has repeatedly denied that it is planning any dry-season offensive this year. But the Phnom Penh official — who spoke on condition of anonymity — says the army is building up its forces in Preah Vihear and plans to go on the attack.

"We want to retake the areas surrounding the Preah Vihear temple," he says. "But to take the temple itself, we will need the cooperation of the Thais. I think you know the geography there."

Signs of a build-up are obvious in Phum Kulen, one of the few towns the government controls in Preah Vihear province and a logical forward base for such an operation.

REVIEW GRAPHIC: SIMON WONG

On January 4 alone, more than 120 troops were ferried in by helicopter from Kompong Thom province, farther south. They were armed with assault rifles, rocket launchers and other weapons.

The local army commander, who asked not to be named, said he was under orders to bring troop strength in the remote district up to 3,000, with 70% of the troops already in place.

Gen. Khann Sovoern, commander of the 4th military region, described the deployment as a "normal rotation," justified by stability in Kompong Thom that allowed some troops to be replaced by local militia.

But the army would have good reasons to mount an offensive in Preah Vihear. According to the deputy chief of staff for the 4th military region, Gen. Nhek Bun Chhay, Ta Mok has moved his headquarters to the northern province from neighbouring Anlong Veng, taking 800 Khmer Rouge soldiers with him. ■ **Michael Hayes**

Siem Reap province. Seng says he crossed over after the Khmer Rouge killed three of his relatives.

At a ceremony on January 1 in Angkor Chum district, 40 kilometres northwest of Siem Reap city, around 200 Khmer Rouge fighters handed in their weapons. Their stories were much like Seng's. Looking bedraggled, hungry and scared, most said they wanted to join the government army and return to their villages.

While the defectors said they were tired of fighting, they believed that having a gun in their hands was the best way to protect themselves and family members from Khmer Rouge retribution. The government army has taken in almost 2,500 Khmer Rouge defectors, giving them an equivalent rank, new uniforms and sending them back to the front to convince former comrades to defect.

Cambodia's rice harvest was disastrous this year, and the Khmer Rouge have been trying to prevent villagers in areas they control from selling rice in government-controlled areas farther south, according to a Western aid worker in Siem Reap province. Instead, they are using forced labour to transport the rice to their base in Anlong Veng, on the Thai border.

That policy also helped fuel the exodus from Khmer Rouge-controlled areas. "When the defectors started coming out, those loyal to the government followed, and then the villagers panicked," the aid worker says. As many as 40,000 new refugees are camped along Route 6, about 15 kilometres west of Siem Reap city.

Phnom Penh is appealing for international aid to prevent its political victory from turning into a logistical crisis. Officially, defectors are supposed to receive 1,000 riels (40 U.S. cents) and 700 grams of rice per day. But cadres interviewed in the main defector camp in Siem Reap city in early January said they hadn't been fed in two days and were only eating because earlier arrivals were giving them food from their own allotments.

As a stopgap measure, the World Food Programme is trying to provide 500 grams of rice a day for one month to all former Khmer Rouge soldiers and their family members, aid workers say. The Australian Government has pledged $2 million for demobilized soldiers contingent on contributions from others. And the United States has turned over $370,000 in surplus military equipment, including cots, mosquito nets, medicines and tools.

But even with international aid, it may take decades to remedy the root cause of the Khmer Rouge insurgency — the abject poverty gripping much of rural Cambodia. Given this, it's likely that some peasants will be willing to listen to false prophets for years to come. ■

INDIA

Nuclear Pay-Off

China to supply enriched uranium to India

By Hamish McDonald in New Delhi

China is supposed to be one of the adversaries India's covert nuclear-weapons programme is intended to counter. Yet of all countries, China appears least worried about India's nuclear-power industry, most of which operates outside international safeguards and inspections.

In a surprising disclosure on January 5, India's Department of Atomic Energy announced that a supply of enriched uranium had arrived that day from China at its nuclear-fuel complex in Hyderabad.

MANUEL CENETA/AFP

New ties: Rao meets President Jiang Zemin in Beijing.

The uranium will be mixed with domestically produced plutonium oxide and used to fuel the Tarapur atomic power plant near Bombay.

With the Chinese delivery, the Indians have managed to wriggle out of a hold applied by Western countries in their long-term effort to wrestle New Delhi into the nuclear safeguards and non-proliferation net. Though it was announced in simple technical terms, the deal has diplomatic implications. It has kept India's nuclear autonomy undiminished, and pointed up the steadily growing ties between Asia's two independent-minded giants.

Indian officials say the Chinese decision to supply uranium was a "relief" for India. It was also a "high point" in the emerging India-China relationship that the Chinese had decided to cooperate "in such a sensitive area."

Since Prime Minister P.V. Narasimha Rao's visit to Beijing in September 1993, the two countries have set aside their longstanding territorial disputes along the Himalayan border and agreed to expand contacts on a broad front. The uranium deal is the first big pay-off for India from this developing relationship.

Although in the longer term some analysts see a strategic rivalry developing between the two giants, the Beijing-New Delhi ties give some immediate benefit in easing pressures from the West on issues like nuclear weapons, missile development and human rights. The differences between China and Western countries in these areas are seen as giving India a little more freedom to reserve its options.

The uranium delivery took place only a few days before U.S. Defence Secretary William Perry's visit to New Delhi, during which nuclear non-proliferation and the Missile Technology Control Regime were expected to figure in talks.

Most of India's reactors are locally designed and use natural (non-enriched) uranium from local mines. These reactors are outside international controls, and their spent fuel can be reprocessed to extract plutonium for atom bombs.

But the Tarapur plant was commissioned in 1969, before India had begun to design power stations itself. It has two 160-megawatt units supplied by General Electric that use imported enriched uranium as fuel. Under a 1963 tripartite agreement with the United States and the International Atomic Energy Agency (IAEA), Tarapur is subject to regular inspections and monitoring to see that none of its fuel is diverted.

After India's explosion of a nuclear device in 1974, the U.S. withdrew from its arrangement to supply enriched uranium for Tarapur.

France stepped in with a long-term agreement, which expired in 1993. When Russia also decided on a "full-scope or nothing" policy, India seemed caught in a squeeze. Developing a uranium-enrichment facility just for one plant would be expensive. The Chinese have thus got India off the hook. The uranium they will supply is low-enriched, meaning it is not weapons-grade, and will be subject to IAEA safeguards throughout the fuel cycle at Tarapur. ■

Flourishing Grassroots

Village-level democracy blooms

By Lincoln Kaye in Liu Jiazi Village, Jilin Province

Convicted rapist Chi Yuanshan basks in the thin winter sunlight, surrounded by fawning partisans. He's just finished his mayoral campaign speech before the village assembly and now he's slipped out of the smoke-filled schoolroom where assemblymen are denouncing him as a feckless fool or worse. No need to stay and hear. Chi's support lies elsewhere, out there in the hustings.

A decade ago, his "moral turpitude" — the rape conviction — got Chi ousted as village party secretary, stripped of party membership and sent for 30 months of labour reform. Now he's convinced he has a fair shot at getting himself elected mayor, no matter how much it may bug the local worthies in the assembly.

Chi's populist blend of homespun anecdotes and vague promises may just carry a majority of the 1,200 villagers. A few judicious gifts of wine or cigarettes haven't hurt, either. And the voters' say is final now that Liu Jiazi selects its mayor by direct elections.

Under his outsized fur hat, Chi's narrow face creases into a gilt-toothed grin: "Isn't democracy wonderful?"

These days, everyone from hardline Long March veteran Peng Zhen to exiled dissident Liu Binyan seems to agree. Ironically though, the local democracy bandwagon owes much of its impetus to Peng. When he chaired China's nominal parliament, Peng pushed through the 1987 Village Committees Organic Law (Experimental).

The statute comes up for revision this year. "We mean to chuck out that parenthesis and make it standard, nationally applicable law," promises one of the drafters, political-science professor Wang Zhongtian of the Central Party Academy. For the party, grassroots democracy could present the last best hope to renew itself and reclaim lost legitimacy on its rural home turf.

But it's a gamble. Village mayors and councils have real power. They collect taxes and grain quotas, enforce family planning, maintain schools, roads and irrigation systems. Such bread-and-butter issues may be the only kind of politics that matter to most of China's rural majority. On these topics, village voters know their stuff and won't be easily bamboozled. So election outcomes can be unpredictable.

IRENE SLEGT

A small say for the little people.

Each of China's million villages has its own way of going about elections. And, with three-year terms of office, most have had a chance to iron out their procedures over two or even three rounds of elections since the 1987 law. Voting methods range from secret ballots to open acclamation. Candidate lists may be winnowed through scrupulous rounds of primaries or they may be simply handed down from the local party cell. Weeks of electioneering may precede a poll, or the question can come to a straight vote on the heels of the nominating process.

Yet in scattered pockets from Sichuan to Shaanxi to Shandong, elections are starting to make a difference. Groups long sidelined from political power — young people, private entrepreneurs, non-party members, professionals, even religious leaders — are now appearing on village councils. At the same time, once-cossetted constituencies — women, ethnic or clan minorities — may need specially reserved seats.

With so much at stake, no wonder the most daring innovators of local democracy often turn out to be socially homogeneous places like Liu Jiazi village. Pretty much everybody here is a farmer. Corn and pig-raising bring in enough cash to keep people at home, with only minimal labour migration. Income gaps remain manageable, with most households clustered around the 15,000 renminbi ($1,764) annual per capita norm. Han Chinese make up 98% of the population.

Taking advantage of its stable demographics, Peartree has invented a new kind of primary called the "Trawl" (*haixuan*, literally "pick-of-the-sea"). All villagers get a blank piece of paper and write in the name of anybody they want to nominate for an office. The resulting lists can run to dozens of names, but further primaries winnow them down to just a pair of nominees for such posts as mayor.

Simple as it sounds, the results have been striking. The new method raised a whole field of upstart challengers to long-standing incumbents like Liu Jiazi mayor Wu Yushan. First appointed 11 years ago, he's weathered two elections with over 80% of the vote. But in the Trawl, he netted barely a third of the votes. "Other people were active in the field, going down to the voters," Wu shrugs. "I can't do that. I'm mayor. My record speaks for itself."

As a result, he came in just 20 ballots ahead of Hou Qixiang, a demobilized army private with no prior experience of government office but a village reputation for sophistication because of his experience in the great world beyond Liu Jiazi. But when these two emerged from the primary as the official nominees, ex-party secretary Chi sensed that both candidates were weak and mounted his comeback bid as a write-in. Two other village luminaries then threw their hats in the ring as write-ins, too, in what amounted to a "block Chi" movement. The election looks certain to go to a run-off.

No such uncertainty hangs over nearby Gao Jiazi village. There, the election speeches, balloting and final tally all finished within a single frosty Sunday morning.

Incumbent mayor Zheng Xiaoping, 42, had taken over in mid-term a couple of years ago when long-standing village chief Yan Qinxue, 59, suffered a mild stroke. Now the charismatic Yan, claiming to be fully recovered, wants his old job back. As the first votes come in, a string of characters gets chalked into the Yan column. The ex-mayor beams, his liverish face glowing even redder.

But then the trend turns towards Zheng, and in a few moments it becomes clear that the incumbent's lead can't be closed. "Look at that," Yan mutters. "Just look at that. Bad news, these elections, putting everything up on a blackboard like that for all to see. If it hadn't been for those two years, I'd have got 85% as usual. How quickly they forget." ■

NORTH KOREA

Seen but Not Heard

Kim's silence fuels speculation about a power struggle

By Shim Jae Hoon in Seoul

Analyzing North Korea from the outside is often compared to reading tea leaves. Specialists search for discernable patterns in official pronouncements, satellite photographs and the testimony of defectors from the reclusive state.

In Seoul, some analysts go even farther — they read lips. And South Korean intelligence officials who monitor every visible movement of Kim Jong Il's mouth say he has a speech impediment that makes it difficult to form full sentences.

The alleged flaw is among the scraps of evidence cited by analysts who argue that medical problems are keeping Kim from getting a firm grip on the reins of government, six months after the death of his all-powerful father, Kim Il Sung.

Others believe a wider power struggle is under way in Pyongyang, with the military playing a major role. But whatever the reason for "Supreme Leader" Kim Jong Il's low profile, most North Korea-watchers agree that something is amiss in the hermit kingdom.

Two months after the end of the official period of mourning for his father's demise, Kim has yet to assume the formal titles of state president and party general secretary, two critical posts the "Great Leader" held for nearly half a century.

Not only has the 52-year-old Kim surfaced only twice in the past two months, but he failed to deliver the traditional New Year's message on January 1. Instead, Pyongyang's official news agency released a photo showing a pudgy Kim, who is supreme commander of the armed forces, receiving flowers from a soldier.

A few days later, the official *Rodong Sinmun* reported that some North Korean villagers had braved freezing rains and hiked far into the mountains to retrieve ginseng — a medicinal root — for the Dear Leader. The report fuelled speculation about Kim's health.

Late last year, South Korean intelligence officials said they had evidence that Kim was seriously ill, which might explain his failure to emerge into the spotlight following his father's death.

The evidence was the medical report of an anonymous Pyongyang official brought to Paris by Gen. O Jin U, the North Korean defence minister, when he went there in October for treatment of his own illness. The report indicated that the anonymous official — believed to be Kim — needed a kidney transplant, but that the operation would be difficult to perform due to complications, including diabetes and a liver damaged by alcohol.

RON McMILLAN/ECHO

What's keeping Kim Jong Il away?

Kim's health has never been good, the intelligence analysts say. In 1993, they add, he gashed his head in a fall from horseback. And in one of the close-up photos taken at the state funeral for his father, Kim appeared to have a swollen face and a vacant stare.

Kim's supposed speech impediment could be one reason why he didn't give a New Year's address. Instead, Radio Pyongyang broadcast a "joint editorial" on January 1 that ran simultaneously in party publications. The editorial made clear that Kim was active. "We will attain new heights of accomplishments in all fields of revolution and construction by uniting firmly around Kim Jong Il," it boasted, putting Kim at the top.

But far from clarifying the succession question, the editorial raised new questions about what was happening inside Pyongyang's halls of power. There was no clue as to why the leader's traditional New Year's message was replaced by a "joint editorial" in the name of the party, the armed forces and government. Has a collective leadership taken over the central decision-making apparatus of the Workers' Party?

President Bill Clinton's national security adviser, Anthony Lake, seems to think so. Speaking on U.S. television, Lake suggested that the decision to release downed U.S. army helicopter pilot Bobby Hall was delayed because North Korea was being run by a collective leadership. "There are different voices within the North Korean Government," he said, adding: "Ultimately, I think that those differences are resolved by Kim Jong Il."

In Seoul, most analysts discount this theory, saying the North's political tradition is too authoritarian to allow for collective decision-making at the core of routine policy deliberations. Instead, they see signs of a power struggle within Pyongyang's political elite. On one side are party technocrats advocating a limited opening to the outside world, and on the other are hardline generals determined to keep North Korea as self-reliant as possible.

Even the military camp itself could be divided into pragmatists and hardliners, the analysts say. The pragmatists, who support a limited opening, would be critical of Kim Jong Il, who was associated with the terrorist attack on a South Korean airliner in 1987 and the bombing of a South Korean presidential party visiting Burma four years earlier. The hardliners, on the other hand, may back the adventurous line taken by Kim in the 1980s.

"It's quite possible that a power struggle is under way in Pyongyang involving the military," says Lee Dong Bok, a veteran analyst and senior South Korean negotiator with the North. In his view, Kim's political fate will hang in the balance until the generals decide either to back him fully or limit him to participation in a collective leadership.

"Kim Jong Il has been around much too long for the military to toss him off so quickly," Lee says. "But I have a nagging feeling that he has been made a political hostage of the military."

If Lee's vision of a power struggle is accurate, it could mean Pyongyang is moving into a protracted period of indecision, even chaos. But because Pyongyang's power structure is so opaque, it's hard to predict how such a struggle would shape up. Lee sees the army as a conservative force that would want to hold back the pace of reform. But others say that the military, which has had a fair amount of exposure to the outside world through its trade in advanced weaponry, could prove to have a moderating influence on Kim.

Other analysts argue that a power

Global strength, local commitment

Renong

U.S. $225,000,000

Renong Berhad

2 1/2% Convertible Bonds Due 2005

Lead Managed by

MORGAN STANLEY & CO.
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October 1994

U.S. $200,000,000

Wharf Capital International (1994) Limited

8 7/8% Guaranteed Notes Due 2004

The Wharf (Holdings) Limited

Price 98.158% and Accrued Interest

Sole Managed by

MORGAN STANLEY & CO.
Incorporated

October 1994

TABCORP

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TABCORP Holdings Limited

3,640,000 Rule 144A American Depositary Shares Representing 36,400,000 Ordinary Shares

Price US$16.73 an American Depositary Share

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U.S. $100,000,000

National Power Corporation

9 3/4% Guaranteed Bonds Due 2009

unconditionally and irrevocably guaranteed (as to payments in respect of interest only) by the

Republic of the Philippines

with the benefit of a Bondholder's put option only at maturity granted by

International Bank for Reconstruction and Development

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Indah Kiat International Finance Company B.V.

Unconditionally Guaranteed as to Payment of Principal and Interest by

P.T. Indah Kiat Pulp & Paper Corporation

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U.S. $200,000,000 11 3/8% Guaranteed Secured Notes Due 2002
U.S. $150,000,000 12 3/8% Guaranteed Secured Notes Due 2006

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U.S. $500,000,000

Bank of China

U.S. $400,000,000 6 3/4% Notes Due 1999
U.S. $100,000,000 8 3/4% Bonds Due 2014

Lead Managed by

MORGAN STANLEY & CO.
Incorporated

March 1994

U.S. $400,000,000

Bangkok Bank Public Company Limited

Hong Kong Branch

3 1/4% Subordinated Convertible Bonds Due 2004

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International

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H.K. $250,000,000

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Hibor Corridor Notes Due 1996

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12,766,000 Global Depositary Shares Representing 25,532,000 Equity Shares

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International

February 1994

PEREGRINE

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PIV Investment Finance (Cayman) Limited

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January 1994

Over U.S. $4.2 Billion Raised for Asian Issuers in 1994

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struggle is being waged over a generational divide, with younger technocrats in the army and party pushing for reforms. They are up against ageing ideologues such as Defence Minister O and Premier Kang Song San, as well as members of Kim's family (his uncle is a state vice-president) and their cronies.

"The vested interests evidently are guarding against the rise of a de-Stalinization movement, like the one that took place in the Soviet Union" after Stalin's death in 1953, says Yang Sung Chul, a Kyunghee University specialist on the North. To prevent the emergence of Khrushchev-type rebels, members of the old guard want more time to tighten their grip on power before allowing the succession process to go ahead.

These hardliners worry that reform could lead to civil unrest, like China's 1989 pro-democracy demonstrations. So they want to open North Korea only enough to keep the struggling economy afloat. But their position within the party would be weakened by the death of Gen. O, who was diagnosed as having terminal lung cancer during his trip to Paris last year.

Any prediction remains speculation at this point, however. It has been just six months since Kim Il Sung died, and the ramifications of that landmark event may just be starting to sink in for party figures. Outside the party, where people

REUTER

Northern troops: for or against reform?

have no information on what the rest of the world is like, it will take even longer for North Koreans to realize that Kim Il Sung's half century of quasi-theocratic rule has come to an end.

Nor are there many models to predict what could happen in Pyongyang. Power has been densely concentrated in the hands of a few people since North Korea's founding, and the leadership has operated in near-total seclusion from the rest of the world.

Even Kyunghee University's Yang warns against trying to draw too many conclusions from the signs coming out of Pyongyang. "North Korea is a strange country, and Kim Jong Il is no ordinary figure," he says. ■

DEFENCE

Softly, Softly

Discreet Israeli weapons sales flourish in Asia

By Yaroslav Trofimov in Jerusalem

You won't find "Made in Israel" stamped on the tanks, aircraft and ships owned by Asia's armed forces. But under the surface many of these fighting machines contain billions of dollars' worth of hi-tech military equipment purchased — often secretly — from the Jewish state.

Israel began selling weapons to Asia as early as the 1950s. But its sales have sky-rocketed in recent years as its arms makers struggle to survive domestic procurement cuts and the shrinking of their traditional markets in Western Europe, the United States and South America.

According to Gerald Steinberg, senior researcher at the Begin-Sadat Centre for Strategic Studies at Bar Ilan University near Tel Aviv, Israel's military exports reached $1.8 billion in 1993, up 20% from a year earlier.

"Most, if not all, of this increase can be accounted by sales to China and Southeast Asia. This is the fastest-growing market for the Israeli arms industry," Steinberg says. A senior government official in Jerusalem agrees: "The realities of the region are inviting supplies."

Though Israel produces its own fighter jet, the Kfir, and a modern tank, the Merkava, its most successful exports have tended to be smaller, low-visibility weaponry. That includes missiles and missile-guidance systems, electronic equipment, avionics, patrol boats and the famous Uzi submachine gun.

So far, only Ecuador and Colombia have bought Kfirs, and the Merkava has yet to find foreign buyers. "Such visible items often do not appeal to prospective buyers because of the political ramifications involved in dealing with a problematic state like Israel," explains Ephraim Inbar, director of the Begin-Sadat Centre. Instead, Israeli arms makers have specialized in "invisible" upgrading that turns outdated Soviet, American or European-made tanks or aircraft into sophisticated modern equipment without making substantial exterior changes.

Israel's skills in weaponry have been honed the hard way. In its earlier days, the Jewish state was financially strapped and often subject to military embargoes. Its military industry began with refurbishing and modernizing whatever equipment was available at the time.

"When you go and upgrade your aeroplane, ship or tank, you save money compared to buying a new product," says Doron Suslik, director of corporate communications for government-owned Israel Aircraft Industries, the country's biggest industrial group.

Israel's Kfir jets.

"The IAI, for example, has lots of experience in upgrading different planes, both from the East and from the West. Also, we give the benefit that other countries can't offer — the reputation of the Israeli Defence Force," Suslik adds.

Indeed, though Israel's controversial image makes certain arms sales to Asia difficult, the reverse of the coin — its army's reputation for effectiveness — adds special attraction to Israeli-made arms. Combined with low prices, this battlefield-tested quality often makes potential clients forget their political reservations about buying Israeli, officials say.

"Israeli products are cheaper than what you find abroad. In the U.S., it's all mass production. Our plus is that we tailor-make our product," David Ivry, director-general of the Israeli Defence Ministry, told *The Jerusalem Post* recently.

The Israeli Government, alert to the fact that undue publicity may expose clients to political pressure and kill the deals, is traditionally extremely tight-lipped about its military exports. Unlike its counterparts in Europe or the U.S., which tend to trumpet every major sale, the Israeli Defence Ministry has a policy of never commenting on military deals and not publishing military export figures.

The situation may change soon, however. Last year, yielding to U.S. pressure, Israel officially joined the United Nations Arms Register, under which countries are obliged to publish their arms sales, production figures and other military statistics.

Though exact figures remain a state

secret, military experts can reconstruct the picture of recent Israeli arms sales to Asia on the basis of press reports, foreign intelligence estimates and international military-research publications. By all accounts, by far the largest Israeli military customer in the region is China. According to Steinberg, Beijing has bought around $3 billion of Israeli arms over the last 10 years.

Secret Israeli-Chinese military cooperation began as early as the late 1970s, when Beijing still pursued an adamantly pro-Arab foreign policy and refused to recognize the Jewish state. Israel's only billionaire, Shaul Eisenberg, is believed to have capitalized on a long history of dealing with Beijing to help set up the Sino-Israeli military trade. Eisenberg held a monopoly on coordinating Israeli arms sales to China at least until the establishment of diplomatic relations between the two nations in 1992.

According to a study by P.R. Kumaraswamy of Jerusalem's Hebrew University Truman Research Institute for the Advancement of Peace, Israel exported substantial amounts of arms to China in the early 1980s. Since then Israel has sold China laser-guided armour-piercing warheads; electronic fire-control systems; optics and cannons for Soviet-made tanks; night-vision, communications and radio equipment; anti-tank missiles; artillery ammunition and rare metals, the study says.

More importantly, Israel also supplied China with otherwise unobtainable technology that helped Beijing develop its own CSS2, PL8H and HQ6I missiles, airborne early warning systems and a new generation of reactive tank armour, according to the study.

Almost all Israeli arms makers, from government-owned IAI, Rafael and TAAS Israeli Military Industries to independent Tadiran, Elbit, Ordan, Elta, ECI Telecom and El-Op have been involved in this Chinese connection, Steinberg says. "Israel is making a very substantial contribution to the Chinese military programme," agrees Kumaraswamy. As early as 1989, a study by the Rand Corp., a U.S. think-tank, named Israel as China's leading supplier of military technology.

Unlike American or Soviet weapons, Israeli arms come with no political strings attached. With more immediate problems to worry about, Israel couldn't care less about China's human-rights record, the fate of the Spratly Islands or Beijing's ties to North Korea.

Beijing has seemed to appreciate Jerusalem's discretion. Chinese spokesman Yuan Mu told the Tel Aviv newspaper *Ha'aretz* in 1992: "Naturally, if we intend to cooperate in the field of advanced technology, the dominant influence of the big superpowers must be eliminated."

The U.S. one of these big superpowers and Israel's closest ally, has viewed Israel's lucrative China trade with some apprehension. Apart from the political aspects, Washington, which has a massive joint military research and development programme with Israel, fears that some of its own secret technology may be leaked to Beijing.

High-level U.S. officials accused Israel in 1992 and 1993 of illegally transferring to China technology from the U.S. Patriot anti-missile missile and the cancelled U.S.-Israeli Lavi fighter-jet project. A subsequent U.S. investigation proved "there was nothing to substantiate the allegation that had been made," according to State Department spokesman Mike McCurry. But, says Kumaraswamy, "there is still a lot of discrepancies. The issue has not been cleared yet."

Israeli-made patrol craft: increasing sales.

In recent weeks, the issue has resurfaced after a *Los Angeles Times* story alleged that Israel and China were jointly developing a fighter based on the Lavi. "This has been an item on our agenda for some time," State Department spokesman McCurry said of the reports of illegal sales of U.S. technology to China. "These types of reports concern us very deeply." Israel subsequently acknowledged that it was engaged in a fighter project with China, but denied that any U.S. technology would be involved.

Ironically, while Jerusalem has tightened ties with Beijing, Israeli arms makers have also made inroads into the Taiwanese market. Israel has licensed Taipei to produce Gabriel-2 anti-ship missiles and the technology for Dvora ships and Shafrir missiles and missile boats. In October, IAI and Taiwan's ruling Kuomintang signed a memorandum of understanding to set up a $220 million military-aircraft maintenance centre on the island. Part of the centre's work would be maintaining the 150 F16 fighters bought from the U.S., project director Liu Tayying reportedly told the *United Daily News* recently.

However, the biggest planned Israeli military sale to Taiwan — a 1992 $600 million contract for 40 IAI-made Kfir C7 jets — fell through because of combined pressure from Washington and Beijing.

Elsewhere in Asia, Singapore is believed by military experts to be the most faithful Israeli client. "The cooperation, which is very broad, started as early as in the 1960s. It is based on the fact that Singapore organizes its entire military strategy on the Israeli model — a highly skilled army with mobile trained reserves," Steinberg says.

Though Singaporean purchases are veiled by secrecy, military publications mention Dubur fast patrol boats, IAI-made remotely piloted vehicles for reconnaissance, Gabriel-2 missiles and re-fitted British-made Centurion tanks. According to *The Jerusalem Post*, Israeli firms such as Elbit and IAI are currently engaged in talks about a multi-million-dollar deal to upgrade the Singapore Air Force's U.S.-made F16 jets.

IAI is also negotiating a $300 million sale of its Kfir fighters, complete with a land maintenance system, to the Philippines. In Thailand, IAI has sold Arava reconnaissance aircraft, and Elbit last year delivered an undisclosed number of L39 military trainer aircraft, complete with weapons-delivery and navigation systems. Israel also supplied Thailand with advanced communications systems for its ground forces.

Though the arms sales contribute to Israel's current-account balance, some Israelis fear the aggressive sales policy may boomerang. They warn that Asian customers could resell Israeli weapons and technology to Israel's Muslim foes.

Already, some of the Israeli casualties in south Lebanon are inflicted by Israeli-made rockets. Used today by Hizbollah guerillas, these rockets were supplied by Jerusalem in the 1970s to a friendly Asian ally — the Shah of Iran. ■

THE 5TH COLUMN

The *Far Eastern Economic Review* hosted a conference in Kuala Lumpur called "Global Asia: Reengineering for Competitive Advantage." Below are excerpted remarks.

Competitive Asia

JEFFREY SACHS,
Author, *Global Linkages;*
Professor of International Trade, Harvard

The world has finally become reconciled with capitalism, after a bitter struggle that dates to the beginning of the opium wars. . . .

When you talk about the world system, remember that in 1839 when the British navy first reached the Chinese coast and fought the opium wars, not only was there no world system, there was barely a capitalist system. Capitalism was a set of invented economic institutions that reached its modern stage only between 1790 and 1840 in the United Kingdom and then spread from Britain to the U.S. and Western Europe. All this led to the most astounding rise in prosperity that had ever been seen in world history, but it was very much localized in Western Europe.

In the 1840s this incredible economic vitality and dominance of economic institutions started to confront the rest of the world. None of the rest of the world had economic systems that were remotely capitalist in structure, that were grounded in markets, private ownership and corporate institutions. And so when this huge efficient economic dynamo of Western Europe started to confront the rest of the world, whether in China or the Ottoman or Russian empires, the clash was cataclysmic.

This is the story of the great passion of the modern age. You had by historical accident a vastly superior economic system that had emerged in Western Europe. You had traditional societies in the rest of the world whose economic potential lagged far behind as a result of fundamentally different social, economic and political institutions. This led to a clash and repeatedly to military victory for Western European powers over the traditional empires. And it all came in a short period of time.

The point is that just like the last 10 years there was a worldwide systemic phenomenon, a very painful one, but one that set in motion 150 years of history and one that had only one outcome: that eventually the more efficient system, the capitalist economic system, would be spread throughout the world. That spread, however, was anything but peaceful, anything but moral, anything but beneficial for large parts of the world because in each of these confrontations the result was a growing risk and eventual collapse of traditional empires. And that collapse did not simply bring in a smooth economic reform but social and economic chaos often accompanied by war, revolution and disaster. In only one case did this confrontation lead to smooth economic reform, the prototype of what is sometimes called shock therapy, and that was Meiji Japan.

The rest of the stories you know all too well and all too painfully, which is why it took 150 years. That is also why it is always wrong to predict that good trends will necessarily go forward smoothly just because they make sense. ■

ANWAR IBRAHIM,
Deputy Prime Minister, Malaysia

Unlike in the West, the debate between "big government" and "small government" hardly ever occurs in Asian societies precisely because of the crucial role of the government to deliver public goods and to correct social and economic inequalities. . . .

Privatization for us is also an instrument of social policy — hence the concept of profitability with social responsibility. Today we can mention with great satisfaction that our privatized entities are not only highly profitable companies by any standards, they are also the most forthcoming in undertaking social programmes. Not all captains of industries are people devoid of social conscience. With sufficient encouragement, I would say moral suasion, the private sector could manifest its caring virtue. ■

RICHARD LI,
Chairman and Chief Executive, Pacific Century Group

In the last analysis, the debate is not regulation versus deregulation but rather about the nature of it. If it is designed to control and restrict because the government assumes it has all the answers, as in the planned economy approach, it will almost certainly be doomed to failure. We've seen this with the collapse of the Soviet Empire. The result is chaos.

If, however, the state is applying a set of policies to ensure a fair, competitive environment in which private enterprise can work its wonders, then the regulation is creative. Having set "highways" and "no entry zones" for itself based on a view of an economic framework for the future, the state can address liberalization in those sectors which can stimulate private-enterprise initiatives and can benefit from the invisible magic hand of the free market. ■

FRANK CHING

EYE ON ASIA

Time for Hong Kong Conciliation

Britain and China should end confrontation in 1995

Both the dawn of 1995 and the 10th anniversary of the signing of the Sino-British Joint Declaration brought forth pious comments from Chinese and British officials alike that they will work amicably together this year to bring about a smooth transition for Hong Kong.

China's representative in Hong Kong, Zhou Nan, called on Britain to "put its verbal promise into action and sincerely cooperate with China in the remaining days." Hong Kong and British officials expressed similar hopes of greater Chinese cooperation.

Certainly the year just ended was one of poor cooperation. Sure, some things were agreed on, such as the disposal of military lands, financing of the airport project and the setting up of a committee to study cross-border infrastructural projects. But such cooperation was the exception rather than the rule. In fact, ever since Governor Chris Patten insisted on unilaterally proceeding with his electoral reform proposals in 1993, relations between Britain and China have been distinctly cool.

There is plenty of blame to go around. Patten didn't have to break off the talks on electoral reforms. A first-stage agreement governing the district board and municipal council elections was in sight, even if an agreement on the Legislative Council elections was still elusive.

Yet China overreacted badly. Instead of simply saying that the Patten proposals for the nine new functional constituency seats and the 10 elected by an election committee were unacceptable, Beijing said all 60 legislators would have to step down by June 30, 1997. This is what has caused fears of a legislative vacuum in 1997, and prompted China to decide to set up a provisional legislature whose members would in effect be handpicked by China, an extremely unpopular idea in Hong Kong.

There is a simple solution to this problem: All China has to say is that it doesn't recognize the 19 seats unilaterally created by Patten but that the remaining 41 legislators would be permitted to serve beyond 1997. This would allow them to serve out their four-year term, to 1999, as originally intended by the two governments. Instead, the Chinese have taken an extremely hard line, apparently because paramount leader Deng Xiaoping is fearful of British conspiracies to deny China full sovereignty after 1997.

> ‘China must not allow suspicions of Britain to cloud its judgment. There is little that the departing British can do anyway’

THOMAS CHENG/AFP

Patten (*left*), Hurd: Time is running out.

Still there are some good signs. The Chinese foreign minister, Qian Qichen, has accepted an invitation to visit Britain later this year to meet his counterpart, Douglas Hurd. Under the terms of the 1991 airport accord, of course, the two men should be meeting twice each year, but this stipulation went by the wayside in the aftermath of the dispute over electoral reform. If the two senior officials can agree to resolve Hong Kong issues, that is to be applauded.

It is high time for each side to make some conciliatory moves, rather than simply call for concessions. Britain might, for example, agree to offer much more assistance to the China-appointed Preliminary Working Committee. It might further respond positively to China's request that it offer future holders of the Hong Kong Special Administrative Region passports the right to enter Britain without visas. After all, if even Britain won't offer its former colonial subjects visa-free entry, which country will? Britain needs to reassess its overall Hong Kong policy and abandon its confrontational stance.

There is much that China can do as well. Beijing should be willing to move on the stalled Container Terminal 9 project, and approve such things as the bill to set up a court of final appeal in Hong Kong. It should be willing to accept British offers to enact so-called "midnight legislation," under which colonial terms such as "Her Majesty's Government" and "the Crown" will be replaced by more appropriate terms such as "the Central People's Government" and "the Special Administrative Region." The Chinese have so far rejected such offers, on the ground that these are matters involving sovereignty. China's arguments are not persuasive. All legislation involves sovereignty, and China is willing to have the bulk of Hong Kong legislation continue in force after 1997 anyway.

China must not allow suspicions of Britain to cloud its judgment. There is little that the departing British can do anyway. They will not be able to leave behind a coterie of pro-British officials and legislators. Everyone in Hong Kong knows that the British are departing and that Hong Kong's future lies with China. While there may be anti-communist sentiment, there is almost no pro-British sentiment.

Time is running out. With barely 900 days left before the handover, unless the two governments resolve to put aside their differences and cooperate for the sake of Hong Kong, the worst of all possible scenarios will emerge: Maximum disruption in Hong Kong come July 1, 1997, precisely the opposite of what British and Chinese officials had sought to achieve before the Tiananmen Square incident drastically changed policies and perceptions in Beijing, in London and in Hong Kong. ■

TRAVELLERS' TALES

TOE BE OR NOT TOE BE: Businessman Tetsuro Ozawa, 50, vigorously picks his teeth after he eats. Usually with his little toe.

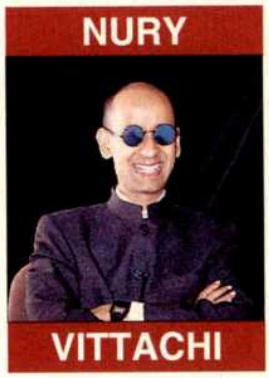
A gymnast? No. Ozawa (not his real name) has a toe on his hand where a finger should be. This is an increasingly common way of wearing one's digits these days in Japan. More than 70 men have toes on their upper limbs after operations at the clinic of plastic surgeon Mitsuo Yoshimura in Fukui. Many are believed to be *yakuza* (members of the Japanese mafia), according to the Kyodo news agency. Gangsters traditionally hack off their fingers in fits of testosterone-crazed machismo. The most common digit to get the chop is the little finger. "A few have come with two or even three missing," Yoshimura enthused.

The doctor does a little swift rearrangement with a flick of the scalpel, and hey presto — you're one of the few men in the world who can play Lizst with his toes.

There are slight differences. Toenails differ in shape from fingernails, and toes have bulgy, bunioned flesh at the tip which you don't find on fingers. And feet don't smell the same as hands.

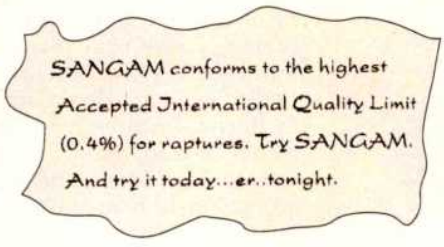
The next time you're in a public place in Japan and someone says "What a stink. Who's taken his shoes off?" look for the guilty-looking chap rubbing Odor-Eater foot pads on his mitts.

DRINK DEEPLY: Violeta Laraya of Manila was in Seoul recently when she saw a shop called Falling in Love with Coffee. In another part of town, she saw a similar shop (*above*) in the vicinity of Myong-dong Cathedral where they seem to have shortened the name.



Have a tale to tell? Call (852) 2508 4382, fax (852) 2503 1530 or write to GPO Box 160, Hong Kong.

ALL OVER THE SHOP: The card (*above*) was sent last month by a retailer to large numbers of people in Hong Kong, including readers Anita Lau and Daniel Glintz. Unfortunately, shop staff forgot to include the name of the shop or any hint about what it sold. "Congualations" sounds like something that happens to mushroom soup if you leave it under the bed for a week.



GIFT-RAPT: Pankat Anand of Pune, India, sent me an advertisement (*above*) for Sangam, a new type of condom "that not only protects but also enhances the pleasure of making love."

This condom, we read, conforms to the Accepted International Quality Limit for raptures. I'm not sure how one measures the raptures involved in conjugal activities, but I'm sure many people must score more than 0.4%. Or am I just different?

STOCK HORROR: Reader Simon Thong sent me a cutting from the *Sun* newspaper of Malaysia, which says: "One month and six days into 1995, share prices on the Kuala Lumpur Stock Exchange closed generally lower. . ." Nothing strange about this — except for the fact that it was printed on November 28, 1994. If you always suspected the markets were rigged, here's proof.

GHOST IN FRONT OF THE MACHINE: Several groups of Vietnamese citizens won't have to pay television licence fees, according to the *Vietnam Investment Review*. The newspaper said: "Families of invalids, soldiers who lost their lives during the war, and senior citizens living without financial support would be exempt from this fee."

Peter Thorin of Ho Chi Minh City, who sent me the clipping, was gratified that dead people will no longer have to pay for their TV licences. They deserve some perks, after all.

THE RIGHT STUFF: And here's your indispensible round-up of really important recent news stories in Asia:

- A fire broke out at Sydney's Touch of Class brothel, and smoke filled the rooms before firemen put the blaze out — but none of the 20 people using the premises left their rooms during the emergency.
- Robbers in Kuala Lumpur hijacked a taxi and shut the driver in the boot, but they were caught after the driver disconnected the car's fuel line from inside.
- Monkeys in Muar, Malaysia, have learned to neutralize the birth-control pills hidden in their food by consuming certain types of soil.
- Officials in Buzen, Fukuoka prefecture, Japan, have belatedly given approval for a gift-distribution programme involving people dressed as Santa Claus, after realizing that the red-suited party animal is not part of the religious story behind Christmas. ■

Piaget time…
measured only in gold.

High Jewellery Watch,

18 K gold,
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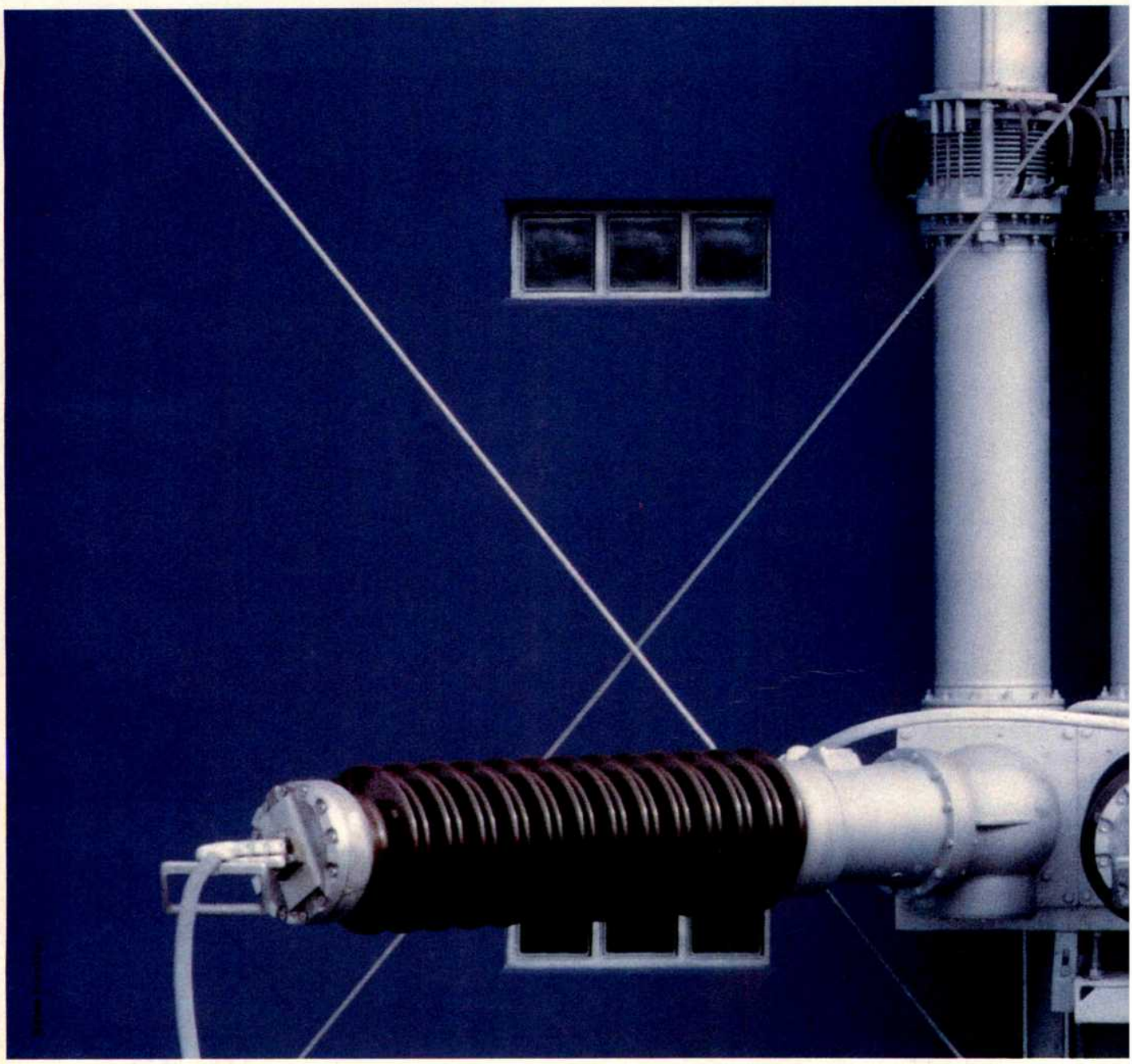
(12 86 cts) and
rubies (20 34 cts).

PIAGET

JOAILLIER EN HORLOGERIE DEPUIS 1874
GENÈVE

A Modern Architecture Which Stores Energy More Fully



What you see here is a complete harmony between form and function, between architecture and high-voltage technology. Hidden behind this architecture is one of the most modern gas-insulated high-voltage circuits with digital protection and conduction technology. The compact technology makes possible a space-saving construction; noise levels are reduced to a minimum in consideration of the environment. Protected from wind and weather, the power supply is made reliable. Ambition and inventiveness make solutions possible. And the promise that this will remain so in the future comes from that which is written above AEG: Daimler-Benz Industrie. **Our business activities: Rail Systems, Microelectronics, Diesel Drives, Power Engineering, Automation.**

ANOTHER DAY, A BETTER WAY

CULTURE

Culture Vultures

Asian governments exploit the past to press their political agendas

By Heather A. Peters and Gordon Fairclough

In their dispute over the potentially oil-rich Spratly Islands in the South China Sea, both China and Vietnam rely on an unlikely source to project national power: their archaeologists. The two may be antagonists but they employ similar methods. Both cite historical documents to "prove" that the Spratlys had belonged to them for centuries. And both are quick to show off archaeological "evidence" to back up their point. Like other nations, China and Vietnam call forth the past to soldier for the present.

That kind of thing wouldn't raise too many eyebrows if historical sites were actually being preserved and protected. But many developing Asian nations are putting economic development ahead of preservation — even as they extol the past. Says an Indonesian museum director: "There are many conflicts between developers of real estate and government and the people now." For instance, there's a project to expand a port in South Sulawesi, which destroyed some colonial buildings. The project went ahead despite protests by conservationists.

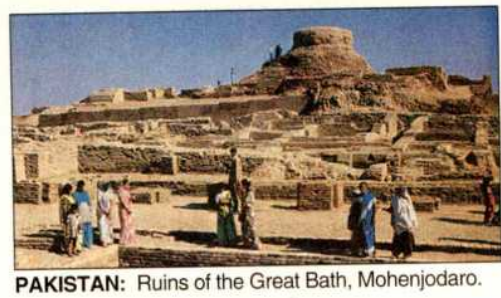
In Hong Kong, where property is now the most expensive in the world, the few remaining older buildings are almost all owned by the government. But that's no guarantee against the wreckers' ball. Indeed, there are reports that the Wanchai police station, built in 1932 on Gloucester Road along what was then the waterfront, will be sold to make way for a new office tower.

Which comes first? Economic development or cultural preservation? Maybe the two can coexist and maybe they can't. Whatever the case, the issue has taken on great urgency and is the subject of a conference in Chiang Mai, Thailand, from January 11-14. It's sponsored by the Asia Society, the Getty Conservation Institute and the Siam Society.

Cultural sites, especially temples and ancient cities, possess immense economic value. As a result, many nations in the region are turning them into tourist sites — and garnering significant foreign-exchange earnings. It's no wonder, then, that the "past" has become an important political and economic issue for so many countries. And because archaeology is the primary tool for uncovering and restoring this cultural past, it, too, has become embroiled in politics.

To be sure, politicians and kings have long used archaeology and interpretation of the past to create a sense of national pride. That was why Ho Chi Minh set up an official body to oversee archaeology after the establishment of the new government of Vietnam in September 1945. For the same reason, Malaysia banned most foreign archaeologists from excavating there. And that was also why King Rama V of Thailand established the Archaeological Club in 1907.

Colonialism stimulated strong nationalist reactions in countries that were, or nearly, colonized. One reaction: historical preservation or archaeology. Rasmi Shoocongdej, a professor at Thailand's Silpakorn University, sees Rama V's setting up of the Archaeological Club in part as a response to the colonization around him. "He created a sense of Thai identity and Thai authority using archaeology," she

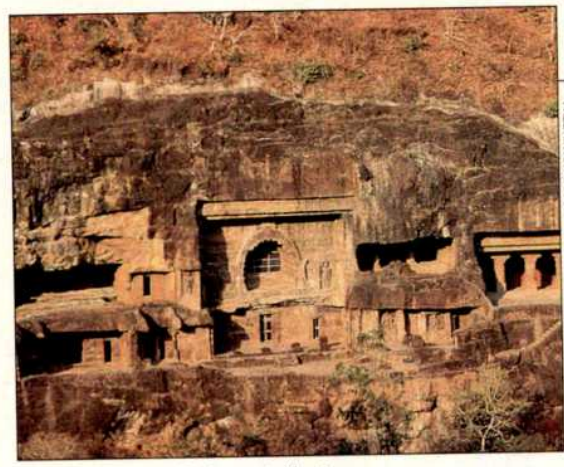


PAKISTAN PUBLICATIONS

PAKISTAN: Ruins of the Great Bath, Mohenjodaro.

JEAN-LEO DUGAST/PICTURE HOUSE HK

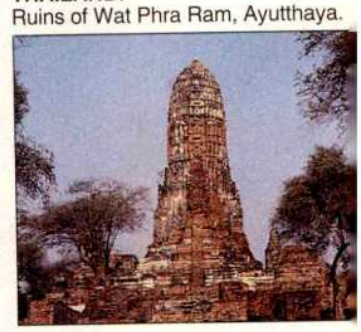
BURMA: Temples in Pagan.



FREDRIK ARVIDSSON

INDIA: Rock-cut Shrines at Ajanta.

THAILAND: Ruins of Wat Phra Ram, Ayutthaya.



On Other Pages

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38 **Potent Symbol**

says. Rama V's strategy worked and Thailand successfully avoided colonization.

In Cambodia, home of the world-famous Angkor Wat temples, the politics of nationalist archaeology exhibit a somewhat ironic twist. Cambodia never yielded the fabled riches its colonizers sought. But French archaeologists and historians were drawn to the country's past civilization. Their work resulted in a reconstruction of the Khmer Empire. They created the seductive idea that Cambodians' ancestors had been the most powerful and gifted people in Southeast Asia. Cambodians continue their eager embrace of this interpretation of Khmer history.

Nationalist archaeology — glorifying the past — is one thing. But it's just a short jump for a government to use archaeology to justify any zealous nationalist or imperialist claims.

Take China. "The central government still likes to use archaeology when asserting claims over disputed boundaries," says a young Chinese archaeologist. This approach is seen most clearly when historical arguments — bolstered by archaeological data — are used to "prove" things. Example: the economically and politically significant frontier regions of Tibet and Xinjiang had close ties with the central Chinese Government for centuries. Therefore, China argues that they're part of China.

Even so, says the Chinese archaeologist, politics doesn't influence his profession as much as it did in the past. "Since 1949, nationalism was a strong part of education in China," he says. "But recently, this feeling is less strong because money is more important than nationalism."

Ah yes, money. Concern for national pride and identity have triggered the current emphasis on archaeology in many Asian nations. But it's perhaps the growth of tourism — and the money it rakes in — that's the single most important factor influencing the ways in which archaeology has developed in Asia.

East Asia and the Pacific are the world's fastest-growing tourism destinations, and the countries of Southeast Asia have used their historical sites as a selling point, with obvious success. Tourism earnings account for 0.9% of China's GDP. Similarly, tourism accounts for 1% of GDP in Japan, 1.1% in South Korea, 2.7% in Malaysia and a whopping 4.4% in Thailand. Vietnam welcomed over a million tourists in 1994, and Indonesia's income from tourism in 1994 is estimated to have risen to $4.6 billion from $3.6 billion in 1993, making it the country's fourth-largest foreign-exchange earner.

Tourism frequently dictates what kinds of sites are preserved and researched. Most foreign tourists enjoy visiting a cultural site they can see — an ancient city or a monumental temple covered with elaborate carvings and sculpture. Thais, for example, believe that most visitors are less interested in the pre-historic stirrings of culture than in the remains of past kingdoms and empires. Consequently, Pisit Charoenwangsa, a leading Thai archaeologist, points out, "There is usually more money available for the archaeologist who reconstructs large-scale stone monuments than for the archaeologist who researches prehistory."

In their eagerness to lure free-spending tourists, governments do indeed try to preserve historical monuments. But in the very act of preservation, many monuments are damaged or, at the least, their historical reconstruction is sloppy and inaccurate.

It's not preservation itself that is bad, but the haste to get things done quickly in order to bring in the tourists. "Too often, there is a rush to finish the restoration project," observes Pornchai Suchitta, a former Silpakorn University professor. Because thorough research needed for the monument takes time, government officials often don't bother. In addition to sloppy restoration, the pressures of tourism bring additional — and even more serious — dangers: the tourists themselves. And as tourists swarm all over the sites, tourism-related industries spring up to service them.

Surapol Natapintu, an archaeology professor at Silpakorn University, is appalled at the number of big hotels encroaching upon the ancient city site of Ayutthaya in Thailand. Ayutthaya, a World Heritage site, in theory encompasses an area larger than the major monuments. This area is supposed to be

Old Wine, New Bottles

The rewriting of history to conform to a nationalist political agenda is a strategy illustrated by the case of Tibet.

In moulding their version of Tibetan history, the Chinese authorities argue that Tibet had joined the motherland by the 13th century, early enough to be considered part of China today.

The history of Tibet is couched in terms of closeness with China, of intimate economic and political relationships and exchanges. China's argument focuses on the marriage between the 7th century Tibetan ruler Srong-btsan-sgampo, founder of the Tubo Dynasty, and a Chinese princess from the Tang Imperial family. However, says Lobsang Tenpa, a Tibetan American working for the Voice of America, "The fact that the Tibetan king also had a Nepalese wife is conveniently left out of Chinese versions of Tibetan history." Tibet had equally close relations with India and Nepal, yet neither claimed Tibet as their own.

In a 1992 Beijing exhibition to commemmorate the 40th anniversary of Tibet's "peaceful liberation," archaeological and historical documents were used to argue that Tibet is — and has always been — part of China. The *China Daily* reported that historical documents were displayed showing "that the friendly relations between the Tibetan nationality and the Han nationality . . . date back a long time."

The exhibit forgot to mention that these same documents also show that relations between Tibetan rulers and the Tang court were often unfriendly during the 7th, 8th and 9th centuries. Or that Tibet controlled portions of what is today western Yunnan and Sichuan.

Another aspect of historical manipulation is to reinterpret and discredit the character of the former indigenous regime and to cast aspersions on the nature of traditional Tibetan culture. Various campaigns have criticized the former "slave and serf owners" who "treated the people like animals." Other targets have been the lamas, the former religious leaders, who stand accused of human sacrifice and other atrocious acts.

At times, these campaigns

RICK STRANGE/PICTURE HOUSE HK

Ruins of Wat Mahathat, Ayutthaya.

CHINA TOURISM PHOTO LIBRARY

CHINA: Dunhuang Caves

J. MONTGOMERY/THE STOCK HOUSE

JAPAN: Todaiji Temple, Nara.

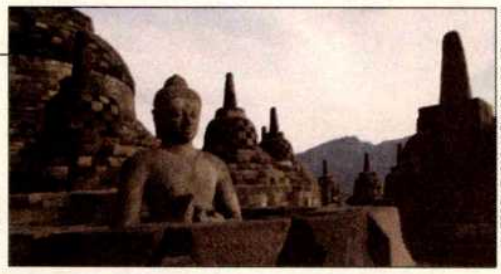
BEN SIMMONS/THE STOCK HOUSE

VIETNAM: Khai Dinh Tomb, Hue.

MARTELLI/PICTURE HOUSE HK

CAMBODIA: Angkor.

RICK STRANGE/PICTURE HOUSE HK



MANFRED GOTTSCHALK/PICTURE HOUSE HK

INDONESIA: Borobudur.

Major Cultural Sites

Some of the major cultural sites in Asia whose preservation is to be discussed at an Asia Society conference in Chiang Mai this month:

ANGKOR: Southeast Asia's main archaeological site, Angkor, stretches over 200 square kilometres and contains the splendid remains of the different capitals of the Khmer Empire, from the 11th to the 15th centuries, including the famous temple of Angkor Wat. Unesco has set up a wide-ranging programme to safeguard this site.

DUNHUANG: The 492 cells and cave sanctuaries in Mogao, in northwestern China, are famous for their statues and wall paintings, spanning 1,000 years of Buddhist art.

AJANTA CAVES: The Buddhist cave monuments at Ajanta in India of the 2nd and 1st centuries BC were greatly enriched during the Gupta period (5th and 6th centuries) when many more, richly decorated caves were added to the original group.

BOROBUDUR: This famous Buddhist temple in Indonesia is built in three layers — a pyramidal base with five concentric terraces, a cone with three circular platforms and, at the top, a monumental *stupa*. The walls and balustrades are decorated with bas-reliefs.

NARA: There are some 489 Buddhist monuments in the Horyu-ji area, in Nara prefecture. Masterpieces of wood architecture, they are the oldest of their type in Japan.

MOHENJODARO: The ruins of an immense city in the Indus valley of Pakistan, Mohenjodaro was built entirely of unbaked brick in the 3rd millennium BC. The site contains an acropolis, ramparts and a lower town.

AYUTTHAYA: A historic city founded around 1350, Ayutthaya became the second Siamese capital after Sukhotai. It was destroyed by the Burmese in the 18th century. Its remains, characterized by its *prang*, or reliquary towers, and gigantic monasteries, give an idea of its past splendour.

HUE: Hue is a striking example of the urban planning and architecture of a complete fortified capital city, as well as a symbol of the Vietnamese feudal empire in the early 19th century.

LUANG PRABANG: This city served as the capital of the kingdom of Lan Xang from 1353 to 1560, of the kingdom of Luang Prabang from 1720 to 1946 and, from 1946 until 1975, as the royal capital of Laos. The government has selected 144 buildings to be preserved.

PAGAN: Many of the more than 1,000 monuments that comprise the archaeological site of the ancient city of Pagan in Burma were severely damaged in a major earthquake in 1975. Old Pagan was a walled city, and the earliest surviving structure is probably the 10th-century Nat Hlaung Gyaung.

KYONGJU: Located on the southeastern part of the Korean peninsula, the Kyongju area, which was the royal capital of the Shilla Kingdom for a millennium, has many cultural and historic monuments and Buddhist sites. The preservation of Kyongju's cultural assets has become a pressing need, due to the national priority for development over preservation.

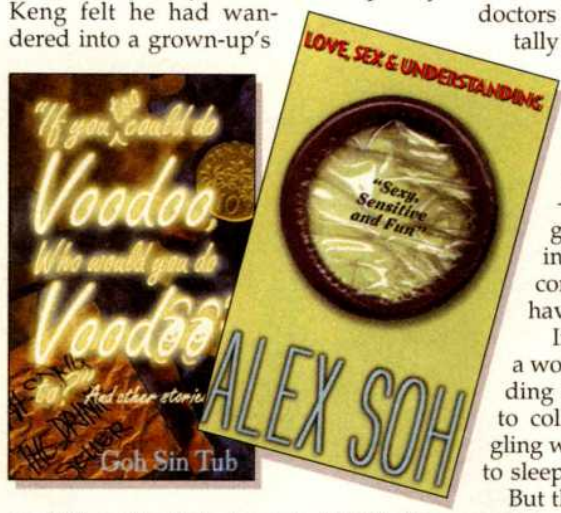
HERAT: One of the key cultural centres in the world in the 15th century, Herat's Great Mosque and Citadel were damaged during the 1979 Afghan civil war. Funds for restoration are lacking. ■

Soh's stories, on the other hand, are about sex, but it would be an exaggeration to call them sexy. "How about doing it first?" the narrator of *Sex and the Harm in Her Hands* — who has spent a day off in his flat "with a good supply of sausages, lettuce, eggs and bread, Campbell soup, some old video tapes and a good book" — asks his girlfriend when she shows up soaking wet from a rainstorm with take-out food. No woman is going to be charmed by that line.

Many of Soh's sexual references have this same mechanical, detached quality to them. In *Trial by Waters*, Ying Leng, who has gone to bed with a Caucasian expatriate, as she calls him, says she feels "really good with the sex." To help us find our way through *Safe Sex*, in which self-confessed sex maniac Keng sleeps with his absent friend's wife, Soh helpfully divides his story into sections: 1. Before the sex; 2. Sex; 3. After the sex.

Although Soh might want us to think this head-on approach reflects his sexual sophistication, one suspects it actually reveals his discomfort in writing about these formerly taboo subjects. And when Keng blames his sexual addiction on a trip to Spain, one wonders if Soh's desire to write about these subjects was similarly triggered by a trip abroad during which he was exposed to more liberal sexual attitudes.

"People there [in Spain] talked about sex so freely, they had sex so frequently, Keng felt he had wandered into a grown-up's



world," writes Soh, born in "1964's Singapore," according to the book-jacket biography. "Singaporeans never talked about sex openly; just like his parents."

Considering that the publishers tout Goh's wackiness and Soh's sexiness, it's ironic that the stories work better when Goh isn't trying to be wacky and Soh isn't trying to be sexy.

In *Small Things*, for example, Goh tells the touching story of a woman's struggle to decide whether to abort a foetus that doctors have told her will be born mentally handicapped like its older brother. A friend advises her to spare herself, her husband and her first son the heartaches and hardships of repeating the experience. But it is the small things — "a smile specially for you, a gurgle of laughter, a little hand trustingly holding onto yours" — that convince the young mother not to have the abortion.

In Soh's *Scars You Collect in a Day*, a woman recalls the events of her wedding day when her ex-husband comes to collect his belongings. After struggling with her memories all day, she tries to sleep by reading a novel.

But the book doesn't help. The painful experience of divorce has taught her that she will be collecting scars — "in states of willingness, ignorance and total unawareness" — for the rest of her life.

■ **Janet Brooks**

Janet Brooks is a Canadian writer.

Cursed Concubine

The Everlasting Sorrow *by Robert Elegant*
Reed International, 81 Fulham Rd, London. £4.99.

"In the steaming, shadowy, killer-infested backstreets of Singapore . . . " reads the blurb.

Singapore? Yes, Singapore!

On the surface, Robert Elegant's most recent novel, *The Everlasting Sorrow*, is a yarn spun out of the turmoil of Singapore's rough road to self-government in 1959. Dashing and unabashedly self-centred, Miles de Sales Corrigan is every inch the action hero of the James Bond era; ex-special forces agent and international art dealer, he is expert in unarmed combat, fluent in Mandarin (though his Cantonese and Hokkien are rudimentary) and well versed in Chinese food, Chinese art and Chinese women. He is also tall and ruggedly handsome with a shock of unruly ginger hair.

In pursuit of pricey Oriental art, Miles finds himself at 30,000 feet above the South China Sea in a hijacked Pan Am jet. He, of course, foils the hijacking and helps nurse the stricken liner to Kai Tak airport in Hong Kong, beds one of the stewardesses (that's what they were back then) at The Peninsula Hotel and finds himself on the trail of "The Everlasting Sorrow," a priceless ancient scroll depicting the beautiful Tang-dynasty imperial concubine, Yang Guifei — curse firmly attached.

The search ends in Singapore in a web of intrigue that leads Miles on a merry chase through what indeed were then, "steaming, shadowy, killer-infested back streets." Along the way, our hero is beaten by triads, kidnapped, escapes, is beaten again, foils the communists, gets the girl, kills a couple of bad guys, loses the girl, gets the scroll, exposes British duplicity and saves Singapore for democracy.

So much for the plot. What Elegant gives us is a brief glimpse into Asia's past, seen through the eyes of someone who went there looking for exotic Asia and found it. Written in 1970 but not published until 1994, this is one of what Elegant calls his "diversions." Flying into Singapore's Changi airport today, it is hard to imagine that a few decades ago, Singapore was as inelegant as Elegant describes it, but it was.

Singapore has managed to scrub itself squeaky clean over the past 30 years; only the most diligent explorer can find remnants of its seedy past. The tourism authorities have brought back a kinder, gentler Bugis Street, complete with professional transvestites. Raffles has undergone a charmless renovation. Chinatown is now a warren of trendy shops, chuppie and yuppie design firms with Swedish furniture and hotels that have sprung up out of converted shophouses.

The beach on which Miles frolics with an exotic Russian-Chinese millionairess and where spicy cockles and live monkey brain are served is now either the 17th green at the exclusive Tanah Merah Golf Club or somewhere under the taxiway at Changi airport. The garbage scows that once plied the Singapore River, and which cushion one of our hero's more spectacular falls, have been relegated to carrying tourists.

Writes Elegant: "Progress was inexorable, but the Asia Miles loved was disappearing. Asia's people were undoubtedly happier and healthier than they had been when the Far East was still a realm of wild romance — at least for outsiders. He was, he supposed, pleased that the people were so much better off, but the abstract consolation did not touch his heart." ■ **Robin Moyer**

Robin Moyer is a writer based in Hong Kong.

A road more travelled: privately completed North-South Highway cuts down on drive time in peninsular Malaysia.

POLICIES

Privatization Pioneer

Malaysia's privatization programme has pumped up the economy and made some well-connected people very rich. But is the government going too far too fast?

By S. Jayasankaran in Kuala Lumpur

Who's Datuk Yahaya Ahmad? Before 1993, even very few of his fellow Malaysians could answer that question. That year, though, he hit the big time: He took charge of the country's motor-vehicle inspection operations.

Big deal? It was, at least in Kuala Lumpur, where winning a privatization project is considered a corporate merit badge and where huge fortunes are made as a result. Indeed, shares of Yahaya's listed auto-distribution and assembly company, Diversified Resources, began leaping when word spread that Yahaya, a classmate of Finance Minister Datuk Seri Anwar Ibrahim, had secured the work formerly done by the government's Road Transport Department.

Malaysia's privatization programme, however, has done more than make some politically well-connected businessmen rich. The country's largely successful drive to shift state-run enterprises into private hands has powered economic growth and made some services more efficient — with almost no dislocation of workers.

In the process, the country has trailblazed an international path as a privatization consultant; economists and officials of multilateral-lending agencies tout Malaysia's programme as one of the most successful in the world.

"To say that Malaysia is a model to developing countries is an understatement," says Khoo Eng Choo, the managing partner of Price Waterhouse in Kuala Lumpur. "Compared with the developing countries, privatization in Malaysia is more advanced and more widely applied." Jeffrey Sachs, an economist at Harvard University, also applauds the country's 12-year-old programme. "Malaysia has proved that privatization works," he said on a recent visit to the capital.

On Other Pages

45 **It's Our Pleasure**

The government has sold parts or all of 120 businesses since 1983 and raised M$10.8 billion ($4.2 billion) in one-off payments alone in the process. And the store remains open. But some academics and opposition politicians question whether the government is getting carried away. They point to projects that have become more ambitious and potentially unwieldy: In 1986, the M$3.4 billion North-South Highway was considered a big deal. But that pales beside the M$16.3 billion Bakun hydroelectric dam, construction of which is set to begin this year.

Says Jomo Sundaram, a professor of economics at the University of Malaya: "The government is going too far too fast and for the wrong reasons, namely cronyism." Securities analysts fret that it could end up shooting itself in the foot by chipping away its monopolies in telecommunications and power, in which the government holds the biggest stakes.

were coordinated with an outright physical destruction of Tibetan culture. During the late 1950s and then again during the Cultural Revolution, Buddhism, the fundamental base of Tibetan culture and society, was viciously attacked and nearly destroyed.

Perhaps as a means of correcting these excesses, Chinese authorities have spent nearly $12 million and more than six years to restore the Potala, the former residence of the Dalai Lama. And just last year, China nominated the Potala for listing with the World Heritage Committee, which oversees a United Nations convention on world cultural and natural heritage. Sites on this list are supposed to receive state protection. Successful listing also greatly aids the state in obtaining international economic assistance to preserve and protect the site.

In December 1994, the Potala and its immediate surrounding area was listed as a World Heritage site. Minja Yang, bead of the Asia-Pacific region of the World Heritage Centre in Paris, says she sees this "as a very positive decision. I also feel that it shows that Chinese policy towards its cultural heritage is changing and opening up."

One of the tangible results of this listing is that Norway, China and the UN will soon begin a three-year training project to teach Tibetans about historic-site preservation. Funding for the project includes both on-site training for the local population as well as scholarships for them to study conservation at Chinese universities and institutes.

■ **Heather A. Peters**

CHINA TOURISM PHOTO LIBRARY

Tibet's Potala: a matter of conscience for China.

off-limits to commercial interests. However, Surapol points out that developers ignore these boundaries and are building hotels closer and closer. He quips, "I think that one day nothing will be left in Ayutthaya except for big, luxury hotels and then no more tourists will come to Ayutthaya."

Moreover, there is the effect that large numbers of tourists have on ancient sites. The thousands of people stomping around the monuments every day wear them down. And that's true even of well-behaved tourists. Others, if not monitored, climb onto unstable remains, creating further problems.

RADHIKA CHALASANI

A brush with modernization for a Pagan temple.

Problem? What problem? In fact, some gladly put out the welcome mat for foreign tourists. "I wish more tourists would come," says Pom Loei, a 51-year-old woman living near Angkor Wat whose husband and two children died during the Pol Pot era. "It's not going to hurt the temples. Tourists just visit and take pictures. It doesn't hurt anything."

But Cambodian officials are wary of the problems tourists can cause. "We want to put into place the most controlled form of tourism possible," explains Vann Molyvann, Cambodia's senior minister in charge of cultural affairs. "Drugs, sex tourism, we would truly like to not know these problems. We would like for our tourism to be cultural tourism. People would visit our temples as Christians visit churches and Muslims visit mosques."

It would be one thing if people were just visiting. But some don't come for leisurely sightseeing, preferring instead to help themselves to the region's heritage. The problem of looting has been especially acute at Cambodia's Angkor Wat. Despite increased security, vandalism occurs virtually every night and objects move almost unobstructed across the border into Thailand. "When I was young, there used to be so many statues," recalls 38-year-old Kae Chum, who lives near Angkor Wat. "Now it's nothing like it was then. I'm very angry and sorry that people have come to steal the statues."

Stolen antiquities have to be laundered through a market where they can be imported and exported. The objects turn up in shops belonging to exclusive Bangkok art dealers, where they are sold to European, North American and Japanese private collectors and museums. Some dealers defend the practice. "What do you think people do with the art they buy?," asks one dealer. "Do they smash it or throw it on the floor? No, they protect it and keep it in a safe place. This is better than the current Cambodian Government, which is still unstable and unable to protect its heritage."

Cambodian art objects, obviously smuggled out of the country, have been sold at international auctions. Sotheby's New York held a sale last November at which a number of Khmer pieces were offered, including a pre-Angkor dark-gray sandstone torso, which sold for $28,750. In June 1993, Sotheby's sold a large Khmer gray sandstone balustrade finial of a garuda from the Angkor period for $68,000.

Actually, monuments belonging to the ancient Khmer Empire are found within the boundaries of today's Thailand and Laos as well. Thailand strictly prohibits the sale of Khmer artefacts that originate within its national boundaries. But it has no regulations restricting the sale of objects illegally imported from Cambodia. Thus, Thailand is redefining Thai culture to include everything found within the boundaries of modern Thailand.

The political manipulation of history and archaeology seems likely to continue. But the economic cost could be enormous. Asian countries' historical and cultural resources will diminish over time unless urgent steps are taken to preserve the past. Otherwise, irreplaceable monuments will continue to be degraded and precious relics will continue to be lost, stolen or damaged. And the tourists will stop coming. ■

Heather A. Peters is a research associate at The University Museum of the University of Pennsylvania. Gordon Fairclough is a REVIEW correspondent in Bangkok.

CULTURE

JOSEF BECK/PICTURE HOUSE HK

The Angkor Wat, already hit by war and vandalism, faces a new threat — tourists.

Potent Symbol

Cambodian temple is focus of new conservation effort

By Gordon Fairclough in Siem Reap

Mia Iyap seldom travels farther from her small, thatched-roof house than her rice fields on the edge of the village. But during Cambodia's water festival in late November, she says, it felt as though she was transported to another century.

The 56-year-old farmer joined the crowds along the massive stone steps that descend to the moat around Angkor Wat, cheering on competitors in traditional boat races. That night, she watched dancers enact scenes from the Hindu epic, *Ramayana*, as the moonlight played on the towers of the ancient temple. "There hasn't been anything like this in a long, long while," Mia Iyap says. "For the first time, it seems that peace is really coming."

That, certainly, is the message the government wants to convey as it tries to establish its authority and rally the Cambodian people to the arduous task of rebuilding their country after decades of fratricidal conflict. It could not have chosen a more powerful setting for the harvest celebrations. "Unity is the only way to the survival of our nation," says Prince Norodom Ranariddh, the first prime minister. "There is no other symbol for that unity except Angkor Wat temple."

Indeed, the 12th-century temple embodies a Khmer identity that transcends political ideology. As Son Chhay, a member of parliament, says: "Angkor Wat is the heart of the nation." As such, it is a potent symbol. The monument's unmistakable silhouette has adorned the standards of Lon Nol's Khmer Republic, the Khmer Rouge's radical Marxist government and the communist regime of Hun Sen. It is also at the centre of the flag of today's constitutional monarchy.

Angkor Wat occupies such a prominent place in the national consciousness because it represents cultural achievement and political power. From the 9th to the 14th centuries, the area around the temple was the seat of a great civilization and an empire that once covered much of Southeast Asia. Angkor Wat and the many other Hindu and Buddhist temples around it are architectural masterpieces. And the irrigation system built by the Cambodian kings is an engineering marvel.

Evoking Cambodia's illustrious past to foster national self-confidence is nothing new. Even the Khmer Rouge, which virtually destroyed traditional Khmer culture by closing schools, razing temples and splitting up families, made the appeal. In a 1977 speech, its leader, Pol Pot, said: "If our people were capable of building Angkor, they can do anything."

Protecting the great temples has proved a daunting task for recent rulers. By the early 1970s, the monuments were caught up in the maelstrom of the Indochina War and Cambodia's own internal conflict. The Khmer Rouge and the Vietnamese — allies at the time — had occupied Angkor Wat, and the monuments remained on the front lines of the fighting for some time.

People who live near Angkor Wat say that many of the site's magnificent statues started to disappear after invading Vietnamese troops installed the communist government of Hun Sen in 1979. The plundering of these priceless antiquities continued for years, peaking before the United Nations-sponsored elections in the spring of 1993. Most were secreted across the Thai border before being shipped to art collectors in the West and Japan.

Since the elections, however, things have improved. Thieves still come in the night to hack off the heads of bas-reliefs. But much of the most valuable statuary has been removed by conservators and is stored in a guarded warehouse.

The fighting and lack of security that made the thefts possible also precluded almost all conservation work. Nothing was attempted until the mid-1980s, when an Indian team embarked on a six-year project to clean and repair part of Angkor Wat. Now that peace has returned, more or less, to the area around the temples, efforts to restore them have once again begun in earnest. Foreign governments are contributing funds and expertise.

But while the return to normalcy in Cambodia is easing one threat to the monuments, it is exposing them to another, perhaps more serious, danger: tourism. Many fear that a flood of foreign tourists could overwhelm not just the monuments, but the country.

"Should we close Angkor to tourists? That's not possible," says Vann Molyvann, senior minister in charge of cultural affairs. "We need these resources in order to reconstruct our country."

To prevent degradation by hordes of visitors, Vann Molyvann says that Cambodian authorities plan to go slowly in developing Angkor Wat as a tourist destination. He says the government will follow the advice laid out in a comprehensive plan drafted by the United Nations Educational, Social and Cultural Organization that is designed to protect the monuments, the environment and local people as the area is developed. The Cambodian Government envisions a gradual increase in tourism, from 160,000 to 200,000 arrivals a year over the next several years to about 500,000 arrivals annually by the turn of the century. Eventually, Cambodia hopes to draw about 1 million foreigners a year.

Whatever happens, the symbolic value of Angkor Wat is sure to remain. "Khmer people are so proud of Angkor Wat," says Son Chhay. "It can keep Cambodia alive for a long time." ■

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BANGLADESH MEANS BUSINESS

BOOKS

Singapore Split

Family in Singapore: Sociological Perspectives *by Stella R. Quah.*
Times Academic Press, 1 New Industrial Road, Singapore. S$15.35.
Debating Singapore: Reflective Essays *edited by Derek da Cunha.*
Institute of Southeast Asian Studies, Heng Mui Keng Terrace, Singapore. $19.50. S$26.

These books deal with the question of the "Western" erosion of "Asian" values in Singapore — and reach opposite conclusions.

Stella Quah, a professor of sociology at the National University of Singapore, appears unable to accept what the plain facts tell her — that Singapore is "going modern" in its social mores and attitudes, despite the best efforts of its government.

In *Family in Singapore: Sociological Perspectives*, a collection of her essays, Quah rains a remorseless hail of statistics upon her readers. Want to know what proportion of Singaporean grandparents are principal child-care providers? Women university graduates versus male graduates? It's all here.

It's her interpretations, not her information, that raise questions. Consider the following assertion. "Divorce is not a major trend in Singapore," says Quah on the basis of the fact that each year divorce affects only 1.35 persons per 1,000 of the population. However, this divorce rate is much more worrying than might appear.

First, a divorce rate per 1,000 population always looks low, but as her statistics show, there has been a dramatic rise in the non-Muslim Singaporean divorce rate per 1,000 marriages: 4.7 in 1960, 13.9 in 1970, 53.0 in 1980, 135.9 in 1990.

In other words, one in every seven non-Muslim Singaporean marriages now ends in divorce. The proportion of such marriages ending in divorce has tripled every decade. Singapore's non-Muslim divorce rate is already one third the United States divorce rate.

Quah comes equally unstuck in her discussion of the tendency of a smaller proportion of the population to get married. Citing her own earlier paper *Social Discipline in Singapore*, she finds proof of the success of government counter-measures in a sudden turnaround in 1987, when after many years of declining marriage rates, there was a noticeable increase, especially in the 25-40 age range.

But was government policy responsible for the upward blip in Singapore's marriage-rate in 1987? Partly, perhaps, but as Quah also notes, 1988 was an auspicious year, the Year of the Dragon, and in that year marriage and childbirth rates moved sharply upwards throughout the whole Chinese diaspora. She is correct that the marriage rate has stopped falling, but part of what appears to be happening is that divorcees, whose numbers are increasing, are remarrying, inflating the numbers of marriages. Statistics she herself cites show that the proportion of never-married Singaporeans continues to rise.

RON McMILLAN/ECHO

Singapore wedding: Perhaps, a dragon was involved.

The pieces by Philip Jeyaratnam and Russell Heng among others, in *Debating Singapore*, a collection of essays mostly drawn from Singapore's liberal opinion makers, make a contrast to Quah's essays.

Addressing Quah's theme, Jeyaratnam points out that often "a false opposition is being set up between Asian and Western values, when in fact the real contrast is between traditional and modern, between values like deference to status and authority (mirroring a feudal social structure) and values like equality of persons before the law (mirroring the contract-based structure of the market economy)."

"In short," Jeyaratnam continues, "we deceive ourselves if we think that 'Asian' values are the last and unquestionable word, from which we depart at our peril, not least because their social and economic underpinnings have in many cases disappeared."

This is an obvious truth, even if the conclusions Jeyaratnam then draw are questionable. He argues that the Singapore Government's attempt to foster an imposed, directed, ideal "Asian" culture, is liable to yield a bizarre and generally stagnant culture. Perhaps — but surely, conservatives will reply, governments have a perfectly justifiable role in articulating the moral consensus of society? Cultural control per se cannot always be wrong; things are more complicated than that.

Heng's essay on democracy tends to realpolitik. He has a bone to pick with the widely held view, well aired in Singapore, that the West has no business imposing Western democratic and human-rights standards on other countries.

What would happen, asks Heng, if prompted by a period of U.S. isolationism, democracy were to withdraw to its Western heartland? What would fill the vacuum? Would a stronger China or resurgent Japan, propagating their own values, be more acceptable to Singapore? Or perhaps a militant Islam?

These questions deserve to be asked, because while on the one hand Singapore's leaders strongly support the U.S. military presence in Southeast Asia, fearing a power vacuum in its absence, they on the other hand fiercely criticize U.S. ideological influence. A serious issue, well argued, and a pleasure to read.

■ **Matthew Montagu-Pollock**

Matthew Montagu-Pollock is a writer based in Hong Kong.

Sinful Tales

Love, Sex & Understanding *by Alex Soh.*
Times Editions, 1 New Industrial Rd., Singapore. S$9.90.
If You Too Could Do Voodoo, Who Would You Do Voodoo To? And Other Stories *by Goh Sin Tub.*
Times Editions, 1 New Industrial Rd., Singapore. S$9.90.

The question must be asked: Can a straight-laced place like Singapore really produce wacky, sexy literature?

For that is what the publishers of these two slim volumes of short stories by Singapore authors claim to be delivering. Goh Sin Tub "at his wackiest best," says the blurb for *If You Too Could Do Voodoo*. "Sexy, sensitive and fun," asserts an unidentified quotation set between pictures of two unrolled condoms on the title page of Alex Soh's *Love, Sex & Understanding*.

It is thus surprising to discover that most of Goh's stories are about death: a bride's dead brother managing to send a friend to her reception; a marketing executive temporarily taking over his boss's apparently dead body; a contractor agonizing over his hit-and-run victims until he himself is killed by a road bully.

Power company Tenaga Nasional, for example, lost M$20 billion in market capitalization over the last year, partly due to fear of competition from independent power producers.

Nevertheless, privatization has enabled the economy to grow faster than it would have otherwise, say economists. By the mid-1980s, the government was accounting for half the total investment in the country. As a result, the budget deficit sky-rocketed and external debt breached danger levels. Debt servicing had exceeded 20% of gross exports, the World Bank limit of prudence.

"Privatization changed all that," declares Tan Sri Ali Abul Hassan Sulaiman, the director general of the Economic Planning Unit, the principal agency in charge of the programme. He ticks off the statistics: In addition to revenue earned from asset sales, the government saves an annual M$5 billion a year as a result of salaries and pensions now paid by the private sector, as well as interest savings. Meanwhile, 92,700 employees have been taken off the state payroll.

There has also been tremendous opportunity-cost savings. "If we'd done all infrastructure projects ourselves, it would have cost us at least M$41 billion," says Ali. All this has translated into healthier balance sheets; the state's external debt-service ratio has fallen below 2%, and the budget has been in surplus for three years running.

Businesses and consumers alike are benefiting from greater efficiency. For instance, average turnaround time at the Kelang Container Terminal has dropped to less than three days from the eight that it used to take to clear cargo. Telephone and power service is steady. More TV and radio programming is available.

The North-South Highway has clipped an hour-and-a-half from the six hours it used to take to drive from Kuala Lumpur to Singapore. The project, completed last year, created a four-lane, and in some places six-lane, highway in addition to the two-lane road that links the cities.

The programme has also increased the depth and breadth of the capital markets. Currently, 19 listed privatized companies together account for more than one third of the Kuala Lumpur Stock Exchange's capitalization of nearly M$600 billion.

The driving force behind privatization has been Prime Minister Datuk Seri Mahathir Mohamad. In the Malaysian context, it was a quantum leap of policy. Mahathir's predecessors firmly believed that state enterprise was the only way to promote national — but especially ethnic-Malay — economic interests.

The New Economic Policy, introduced in 1971, was an affirmative-action plan designed to eradicate poverty but also to lift bumiputras (indigenous Malays) into the economic mainstream. Its litmus test was, and remains, the redistribution of corporate-asset ownership and, hence, wealth. Before privatization, the thinking was that only the state could do it.

Mahathir simply folded privatization into redistribution objectives. The National Development Policy, which replaced the NEP after it expired in 1991, declared that privatization would be used to attain NEP objectives. Thus, while many large privatizations went to non-bumiputras (*see accompanying story*), the bulk of the deals were dished out largely to bumiputras.

Privatization players: Tenaga power plant (*above*), Halim.

It created a few immensely wealthy individuals but it also served NEP objectives. Halim Saad, for example, used to be just another mid-level corporate manager until his then-boss, Daim Zainuddin, became finance minister. Three years later, Halim's United Engineers (Malaysia) bagged the M$3.4 billion North-South Highway contract. Today his listed flagship, Renong, controls 10 other listed companies. Almost all were previously owned by ethnic Chinese.

United Engineers clearly landed the contract through political connections. Mahathir acknowledged it himself in 1987 when he said that a company linked to the ruling United Malays National Organization had to be given the contract because the party needed funds for its new M$300 million headquarters.

But the growth of Renong seems to have disturbed few people. The Chinese owners of the listed companies in question profited handsomely by either selling out completely or letting Halim take over while they kept reduced stakes. It is something of an irony now that Renong is widely considered a "can-do" company with a reputation of delivering projects ahead of schedule; lack of a track record was one of the biggest charges levelled against Halim when he received the contract.

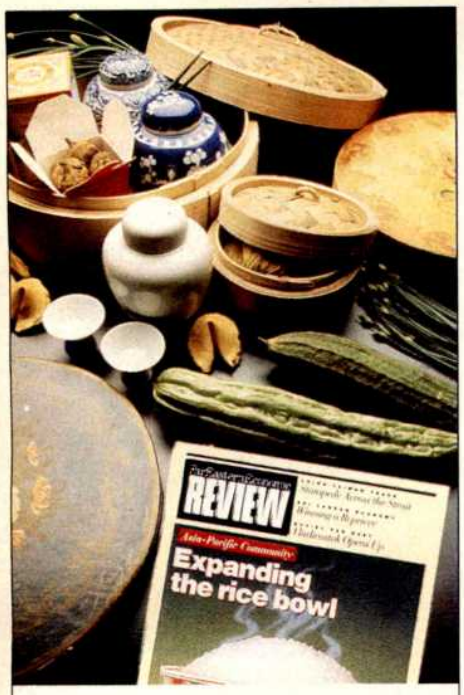
Malaysia's privatization programme involves not only full and partial sales — where the government continues to hold commanding stakes as in the utilities — but also contracting (municipal garbage disposal, for example) and build-operate-transfer schemes like the North-South Highway. Underpinning the programme, however, is a common thread. Says Ismail Faridz, the head of the privatization unit of Arab-Malaysian Merchant Bank: "Here it has always involved government participation, either as a shareholder or as regulator."

Money is not the main objective. "It's never been a fund-raising exercise," says Anwar, the finance minister. "We let the private sector take the lead and the government acts as a check and balance. If we make some money in the process, that's a bonus."

But the government's commitment to the programme also made early privatizations well-nigh risk free. In the highway agreement, for example, the government guaranteed traffic-projection figures for United Engineers and also gave the company the right to increase toll rates with inflation.

The more recent privatizations haven't been as generous. Still, to attract private-sector interest, the government has thrown in sweeteners. The blandishment is usually land, to be developed by the implementor. Thus, Renong was awarded the contract to build a bridge that would be the second link to Singapore. But that wasn't what excited analysts. What they liked was the land that the government gave to Renong to induce it to build the M$1.5 billion bridge. The company plans to develop the land at the Malaysian end of the bridge into a massive township.

Similarly, the government is currently toying with the idea of a M$1 billion highway linking Malaysia's three resort highlands. The idea has few takers because most businessmen say that traffic flows are too light to make the project viable.



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Still, Berjaya Group is studying the proposal. According to company officials, the proposal "could work" if it came with land for development. The reasoning: The demand for houses in the highlands has always been higher than supply.

The danger, however, is that projects involving land as inducement only work in strong growth conditions. In the event of an economic downturn, property development would be the first casualty.

Another concern with the privatization programme is that awards are becoming more ambitious. The sheer scale of the Bakun project is enough to boggle the mind: a dam that will generate 2,400 megawatts and flood an area the size of Singapore after its expected completion in 2001.

Projects like these worry analysts and raise questions that cannot be answered until after the dam is built. Can it be done without damage to the environment? Will it be viable and what if it's not? Ekran, the company building the dam, insists the answer to both is yes.

These are not the only questions. The rate at which privatizations are being carried out also troubles some analysts. Both the power and telephone sectors have been thrown wide open by the licensing of new entrants. Given their capital-intensive nature, analysts expect a fearful shakeout.

Now another thorny problem is presenting itself. For years, Malaysians have paid very low rates for sewage disposal. But they received equally little for their money. Most municipalities have appalling waste-treatment systems. Last year, the government awarded the national sewerage contract to a consortium headed by Indah Water Consortium, led by the Berjaya Group.

The company upped the rates of individual houses mildly, but charged commercial users by the rate they used water. This immediately caused an outcry: Companies that had been used to paying M$100 in monthly sewerage bills suddenly saw bills 10 times that amount.

Currently, new rates are being negotiated among Indah, the Economic Planning Unit and the private sector. But the EPU's Ali isn't very sympathetic. "All this time, the government and the environment have been bearing the cost," he says. "I don't see why companies that run up electricity bills in the millions should quibble over paying fair sanitation rates. There's no such thing as a free lunch."

That is the essential truth underlying Malaysian privatization: Start paying. How far this will be pushed is the worry of many people. Now health services are falling under the hammer. The government medical stores that manufacture drugs have gone to the Renong Group while services such as maintenance of biomedical equipment have been divvied up among various groups.

This will clearly increase medical costs, but it isn't yet clear by how much. State-sponsored medical care is essentially free, and there are mounting fears that private medicine will bring with it soaring costs and that quality of care for those who can't pay will decline.

The biggest charge against privatization, indeed, is that it has favoured an elite few — those with close ties to the United Malays National Organisation. It would seem so. The early privatizations were generally on a first-come-first-served basis with no open competition. And critics have noted that many projects went to associates of former Finance Minister Tun Daim Zainuddin.

More recently, however, the ascension of Anwar to the Finance Ministry has seen a sharing of spoils. Most projects now go to a number of companies through consortiums. Whether this is a better system, however, is moot. Some quarters argue that while Daim might have favoured a few, they always delivered.

The seeming fairness in distributing the largesse, they argue, has not increased yield. One example that critics cite is Malaysian Resources, which, having won a slew of contracts, hasn't done very much in terms of implementation.

The political-connections element is so embedded in the Malaysian psyche that almost everyone given a contract is assumed to be in one camp or another. It's something that annoys the prime minister. "You people always say that this businessman is Mahathir's friend and that's why he got the contract," he told the REVIEW recently. "Every businessman is Mahathir's friend." ■

Money's Not the Object

Top money-earners of Malaysia's privatization programme

Asset sales:	M$ million
Tenaga Nasional	3,100
Malaysian International Shipping	1,300
Malaysia Airlines	1,300
Heavy Industries Corp.	875
Telekom Malaysia	525
Port Kelang	361
Malaysian Shipyard & Engineering	227
Proton	200
Fima Holdings	190
Peremba	170
Sports Toto	113
Desaru Tourist Resort	71

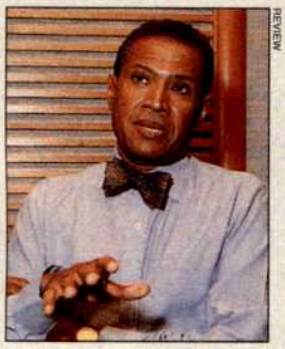
Source: Economic Planning Unit, REVIEW Data

REVIEW GRAPHIC: RAY LEUNG

It's Our Pleasure

Several Malaysian businessmen have participated in the country's large privatization projects. Among them:

Datuk Halim Saad: The cigar-puffing, boyish-looking protege of former Finance Minister Tun Daim Zainuddin is probably privatization's biggest beneficiary to date. Halim, 41, shrewdly parlayed political advantage and the M$3.4 billion ($1.3 billion) North-South Highway contract into the Renong Group — a listed holding company that controls 10 other listed firms. Renong ranks 10th in terms of market capitalization on the Kuala Lumpur Stock Exchange and has M$13 billion in privatization contracts on its order books.



Tajudin, Ting (*top right*), Krishnan (*right*).

Datuk Tajudin Ramli: Tajudin is another Daim protege who in the late 1980s obtained Malaysia's first mobile-telephone licence. It came with a five-year guarantee against competition. During that time, the magnate built Celcom into the largest mobile-phone firm in Malaysia with more than 300,000 subscribers. Celcom is now owned by Tajudin's listed flagship, TRI Industries. Valued at more than M$5.3 billion, TRI is the country's ninth-largest company in terms of market capitalization. Late last year, Tajudin, 46, was granted permission to buy a controlling stake in Malaysia Airlines for a staggering M$1.8 billion.

T. Ananda Krishnan: He took over Malaysia's only nationwide lottery in 1989. The same year, Krishnan won management control of the country's Totalisator Board and its Numbers Forecast Operations (used in horse racing). The NFO's turnover then was M$30 million. Now it's M$1.5 billion and the operations have been injected into listed company Tanjong, valued at more than M$2.9 billion. It ranks 22nd among Malaysia's listed companies. Krishnan, 53 and a confidant of Prime Minister Datuk Seri Mahathir Mohamad, has since received telecoms licences and the contract for Kuala Lumpur's largest real-estate development. His companies are expected to sink M$6.5 billion into them over the next five years.

Tan Sri Vincent Tan Chee Yioun: In 1985, Tan bought state-owned betting agency Sports Toto for M$35 million. He tightened up management and tripled profits in the first year, then took it public two years later. Today, Berjaya Sports Toto is capitalized at M$1.6 billion, ranks 26th among Malaysia's listed companies, and is one of the linchpins in Tan's sprawling Berjaya Group. Tan, 43 and another close associate of Daim, holds 20% of Indah Water Consortium, the company awarded the M$6.3 billion privatization of Malaysia's sewerage systems.

Tan Sri Ting Pek Khiin: Ting, also a Daim associate, holds the distinction of winning Malaysia's largest-ever privatization project — the M$16 billion Bakun hydroelectric dam. The 45-year-old's listed flagship, Ekran, is expected to complete the project in 2001. The sheer potential of Bakun has jump-started Ekran's share price; the company is currently valued at M$1.8 billion, among the country's top 50.

Datuk Francis Yeoh Sock Ping: Yeoh's listed YTL Corp. was always a respected construction firm on the KLSE. But it assumed gigantic status after Yeoh, 44 and a Mahathir ally, won contracts worth more than M$3 billion to build power plants. Today, YTL is valued at more than M$3 billion, ranking 34th on the exchange.

■ **S. Jayasankaran**

MEDIA

Doordarshan Delivers

India's state broadcaster loosens up, at last

By Jonathan Karp in New Delhi

Unthinkable. MTV, to many parents the symbol of depraved Western values, on Indian state broadcaster Doordarshan?

It was out of the question in 1993 when Information and Broadcasting Minister K.P. Singh Deo unveiled new Doordarshan channels that would offer a "befitting response" to the "cultural invasion" by satellite television. Today, all but one of those channels are stillborn — and that lone survivor is responding by carrying MTV's racy music videos every afternoon.

"We felt, yes, if we can bind down MTV in an arrangement where they comply with our broadcast code, what's the harm?" says R.K. Singh, Doordarshan's deputy director-general. Singh is part of a new management team that is giving the network a commercial bent.

"Competition was the best thing that happened to Doordarshan," says Prannoy Roy, a popular presenter for Doordarshan. "It was a public-sector enterprise and a monopoly. Both were killing it."

The television network still *is* both. But self-preservation has spawned pragmatism at Doordarshan — an elephantine bureaucracy with 27,000 employees who are better versed in political propaganda than pop culture. For years, Doordarshan was a key government tool used to insulate India from the West.

Now it's reinventing itself, co-opting Western television to recapture viewers and advertising rupees lost to ZeeTV, a private Hindi channel, and foreign networks such as StarTV. Though Doordarshan managers still face some opposition from the government's conservative impulses, its formula for opening up may yet provide a model for Asia's other besieged public broadcasters.

The network starts from an enviable position. Its national channel, broadcast mainly in Hindi, is the only one that reaches all of India's 47 million television households. Since 1993, Doordarshan has developed a successful second service, the Metro channel, which airs MTV and now targets 18 major cities. Doordarshan is injecting fresher entertainment and current affairs into these two channels. It also offers 11 regional-language channels, is

beefing up satellite broadcasts as part of plans to launch its own international service, and is even considering a pay-TV Hindi film channel.

The new team that is breathing life into Mandi House, Doordarshan's New Delhi headquarters, employs the jargon of market-driven media executives. They speak of TRPs (television rating points), hot birds (satellites) and profit centres. They hesitate when it comes to privatization, though that appears to be their goal.

One question is whether India's political establishment, which has given Doordarshan greater autonomy in the past two years, will continue to flow with the reformist tide. Doordarshan suffered a blow in October when Prime Minister P.V. Narasimha Rao scrapped Channel 3 just days before its debut.

Channel 3 had been devised to lure up-market viewers back from the Star network with "serious" entertainment such as classical music. But the prime minister balked at the inclusion of live, privately produced current-affairs programmes, which would have lent Doordarshan the news credibility it is perceived to lack. Scuttling the channel denied Doordarshan that credibility and the chance to build on a marketing advantage: live programming.

"One of our unique selling points is that we can go live, which the competition cannot," says R. Basu, acting director-general of Doordarshan. The network's monopoly forces satellite channels to tape virtually all programmes made in India. "We thought we should exploit that," Basu notes.

Channel 3's timing was unfortunate. Rao had fresh memories of how Doordarshan's news decisions could backfire: An Urdu-language news bulletin the network aired in October prompted Hindu-Muslim riots that killed 22 people in the southern city of Bangalore ahead of state elections. Elections elsewhere in November and December made Channel 3 too risky for Rao. Doordarshan officials believe Channel 3 will launch early this year, without live current-affairs programmes.

The incident shows that even though India is opening its economy, it isn't prepared to deregulate news. "TV exposes the lie of our democracy," says a producer who has worked with Doordarshan.

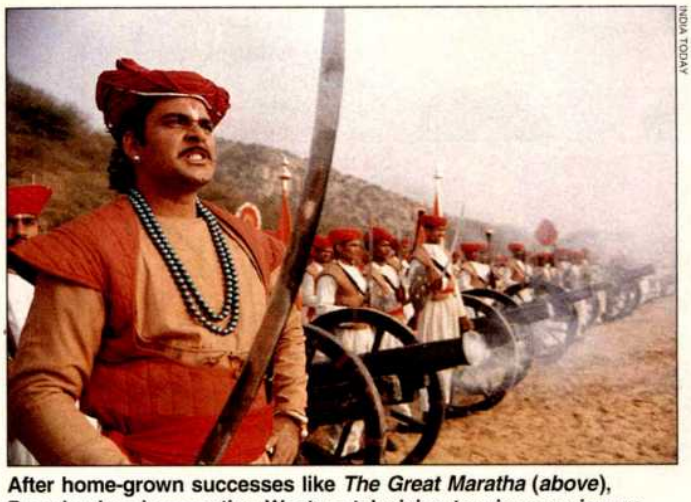
The delay in launching Channel 3 is just the latest in a string of botched expansion efforts. Metro's initial launch in early 1993 was marred when some producers boycotted a scheme to award programme time slots on a first-come, first-served basis. When Doordarshan repeated the exercise in August 1993, producers won a court order halting the chaotic process. Undaunted, Doordarshan launched the five channels with dreary programmes from its archives.

To the surprise of competitors, the new team led by Basu and Singh quickly rejuvenated Metro. They sourced soap operas and dramas from independent producers, added films and televised fashion shows, and improved niche programmes — such as those targeting housewives. "I didn't think they could pull it together so fast," says Meenakshi Madhvani, vice-president for marketing and sales at Zee.

PRASHANT PANJIAR/INDIA TODAY

Doordarshan chief Basu.

Doordarshan also added current-affairs programmes, which are vetted but allowed a modicum of government criticism. One of the programmes Basu encouraged: *What's Wrong With Doordarshan?*



INDIA TODAY

After home-grown successes like *The Great Maratha* (*above*), Doordarshan is co-opting Western television to win new viewers.

Such expansion has opened doors for people like Karan Thapar, who produces two current-affairs programmes, *Eyewitness* and *The Chat Show*. Thapar used to distribute *Eyewitness* to video-rental outlets each month, drawing perhaps 2 million viewers. Aired on Doordarshan since February 1994, *Eyewitness* can now be seen by 60 million viewers each week. "We gained more than we lost," says Thapar, executive producer of HTV, the television arm of the *Hindustan Times* newspaper group. "But we did lose in one important sense: Doordarshan sees the programme before it goes on air."

Censorship is idiosyncratic. Thapar recalls one episode of *The Chat Show* in which the guest, actor Roshan Seth, cupped his hands like breasts and imitated the singer of a banned song, *Sexy, sexy, sexy*. Doordarshan commissars allowed that. But they censored a comment Seth made about former Prime Minister Jawaharlal Nehru, whom he had portrayed in the film *Gandhi*. Seth remarked that Nehru's famous "tryst with destiny" speech was inspired in part by Winston Churchill. "Roshan said: 'Nehru took it from Churchill'," Thapar notes. Viewers heard: "Nehru *bleep bleep* from Churchill," Thapar says. "That sounds worse."

As Doordarshan feels its way in programming, it has moved to capitalize on revenue opportunities. On top of advertising, the network receives telecast fees from programme suppliers, who are given a portion of commercial time to sell in order to recoup their costs. Doordarshan's frequent rate changes have aroused resentment. "When a programme does well, they start squeezing you at both ends," says Lalit Modi, president of Modi Enterprises, which distributes Walt Disney programmes.

Doordarshan's Singh acknowledges the confusion but adds: "If viewership jumps to 15 million, would you keep the rates at a base of 4 million?"

Doordarshan has its reasons to want money fast. For the year ending on March 31, it forecasts revenue of 4.3 billion rupees ($139 million), well below expected expenditure of about 6.5 billion rupees. After competition eroded its revenue growth for two years, Doordarshan is now clawing back. But its forecast of 10-15% advertising growth this year lags overall market growth of about 25%.

"If I were to utilize Doordarshan to the hilt in terms of commercial exploitation, I could rule the roost," says Singh, who oversees marketing. "We are a public broadcaster. We are not totally commercial." Yet he suggests that Doordarshan might hive off a commercial arm. "I will not use the word privatization, but certainly a nucleus for total commercial use will have to be considered."

The field will get more competitive this year as new satellite channels rain down. Also the Indian Government is likely to license private broadcasters.

To sustain its gains, Doordarshan must streamline. Not least among its hurdles is the fate of its 27,000 employees — large compared with the staff of 20,000 at Britain's BBC or the 12,000-strong Japanese public broadcaster, NHK. Doordarshan's staff may not want to give up the security of state employment. So when asked to predict a time-frame for Doordarshan's privatization, Basu shakes his head: "I wouldn't hazard a guess on that." ■

Game Over

China Venturetech falls from its pedestal

By Henny Sender in Hong Kong

If nothing else, China Venturetech Investment aimed high. Created by Beijing in 1986, it set out to become China's premier financier, funnelling Western capital to promising Chinese companies at a time when conditions were ripe and opportunity was everywhere. Casting itself as another Citic (China International Trust & Investment Corp., Beijing's main investment arm) and sporting seemingly impeccable connections, it quickly became one of the most courted of Chinese partners.

But in November came news that founder and president Zhang Xiaobin was on indefinite "sick leave," relinquishing management of the state-controlled company. Few associates knew his whereabouts. Back at the office, company officials were considering a management shuffle, though denying rumours of up to $70 million in foreign-exchange losses.

Soon after, Japanese retailer Yaohan bailed out of a troubled Beijing department-store venture with Venturetech. Sources at Venturetech counterparties say it has incurred losses on property-investment and other deals that are a far cry from its stated mission: raising capital to develop technology, with particular focus on start-up businesses or small and medium-sized concerns.

Whether or not the rumours prove true (company officials would not return phone calls) and whatever Zhang's fate, many observers sense the end of an era for Venturetech, whose once-brilliant aura now appears irreparably diminished.

What happened? For starters, Venturetech was a product of the China frenzy: that stampede of investors looking for shortcuts and fast bucks, and sure that connections would guarantee both. Indeed, it's possible to see in Venturetech's rise and apparent decline all the shortcomings of China fever writ small. If there's a lesson here, it's that connections in China don't mean as much as many hope, and that there are no easy shortcuts. For many who trusted Venturetech, that has been an expensive tutorial.

Venturetech "blew it," says a Hong Kong-based lawyer who has had extensive dealings with the firm. "If they had built an organization and a business, they could have been a major force. But they just got high from doing deals and moving on. When it came to execution, there was a real fall-off in quality. They just [cared about] what made sense for them as individuals, not as an institution."

Outsiders looking at Venturetech understandably saw an impressive organization, one with all the right credentials. Its two main backers are the Ministry of Finance and the State Science and Technology Commission. Even Citic has a small stake.

Moreover, Venturetech is staffed by the most red-blooded of China's so-called princelings. Its vice-president, Chen Wei-li, is the daughter of elder statesman Chen Yun and sister of Chen Yuan, deputy governor of the People's Bank of China. Zhang says he is the son of a former minister of health, while his partner and co-founder, Lao Yuan-yi, is believed to be the offspring of former intelligence director Lao Sun.

And Venturetech is everywhere. It operates a department store in Beijing (now, without Yaohan) and owns a hotel next door. It has a Hong Kong-listed fund, China Assets, and another with Daiwa Securities for Japanese investors. It went in with Goldman Sachs on a power-plant deal for Shandong province. It joined an investment group, along with tycoon Li Ka-shing, that acquired control of Hong Kong brokerage Public International.

"Venturetech happened at the right time," says the Hong Kong lawyer. "They played the investment bankers' game in Chinese form. They played the China card to foreigners and the foreign card to the Chinese. They were there at a time when the market was looking for people who could talk the game. These people were strong on style. They had less substance, but they could talk enough substance to lend impact to the style."

Those who probed a little deeper saw a lot of debt, but most of it was borrowed from the People's Bank of China. A credit officer for a second major American investment bank in Hong Kong came back from Beijing satisfied that the central bank would fully support Venturetech.

Alas, what appeared to be an organization with a structure and a strategy turned out to have neither, say Hong Kong financial sources. Venturetech executives frequently dismissed Citic as bureaucratic. "We have a different structure," Zhang once boasted. "We are more flexible."

Flexibility, it turns out, is no substitute for structure. Hong Kong counterparties say principals Zhang and Lao were traders, not investors. Concerned with doing

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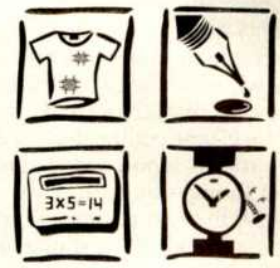

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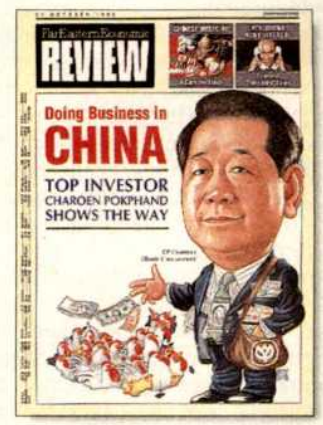

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deals and moving on, they preferred arbitrage and the quick turn to the time-consuming nurturing of new businesses.

And while an organizational chart might show them as partners, in fact Lao and Zhang cut separate deals with separate sources of cash, the counterparties say. It was not unusual, for example, for Zhang to deny knowledge of some deals. (Public International was Lao's, he said, while China Assets, the Hong Kong-listed direct-investment fund, was his.)

Many who saw the two in Hong Kong had little idea that Zhang and Lao spent much of their time cutting deals with local Chinese officials who wanted speedy returns and thought the fastest lay abroad. Conversely, the two at other times were in New York and Hong Kong meeting Western and Japanese businessmen interested in China. Venturetech could speak *their* lingo too. Lao spent so much time raising foreign money that company documents listed his residence as New York.

To be sure, there were problems from the beginning. Deals were coming in so fast that there was little time to manage them. "They were deal junkies," says a broker who worked with the group. A year ago, when the U.S. Commodity Futures Trading Commission imposed sanctions on a Venturetech subsidiary for trading irregularities, Lao explained to associates that he was juggling too many apples to pay attention to any one.

When Yaohan Beijing opened in December 1992, people lined up to stare at the Gucci leatherwear and other expensive imports. A year later, the Gucci goods were gone, replaced by cheap local bags. Yaohan people complained about shoddy inventory — cosmetics from the former East Germany, for instance — and rampant staff pilfering.

Other operations grew equally troubled. China Assets is currently trading well below the value of its assets. It has never recovered from (or fully explained to shareholders) a 1992 investment of HK$48 million ($6.2 million) in a Shenzhen company, Evertech Holdings, that it wrote down to zero within months, wiping out almost 8% of the fund's assets.

In December 1993, Chinese Premier Li Peng scrapped Venturetech's Shandong power-plant deal with Goldman Sachs. Now, Goldman partners privately eschew any further deals with Venturetech.

Meanwhile, as they were approaching Westerners and Japanese with China deals, Zhang and Lao were also working the other side of a precarious equation: trading and investing cash their Chinese friends gave them. Counterparties say these included buying American property and trading currencies, metals and other commodities on offshore exchanges.

The chemistry between the two partners was always unstable. Over a year ago, counterparties began noting the tension, which Zhang freely acknowledged.

"The biggest problem of that organization," says a Hong Kong-based investment banker, "was the ego of Zhang and Lao."

When press reports of currency losses appeared in November, the first response of those familiar with the company was to wonder who started the rumours: Zhang's camp or Lao's. No one has confirmed the losses, and it's possible that rogue traders in China placed orders without Venturetech management's knowledge. (Sources at many Venturetech counterparties refer to sloppy procedures in Shanghai, where most trading orders were placed.)

Whether or not Venturetech has suffered large currency losses, the recent reports draw attention to an inescapable fact: For all its connections and vaunted capabilities, the company has achieved little. A year ago, it had about $700 million in assets. Company officials said recently that they expect after-tax earnings of about $1.8 million for 1994, about the same as the previous year. That is hardly an impressive figure for a group of Venturetech's size, let alone one in such a privileged position.

ALEX SO/REVIEW

Zhang: juggling too many apples.

While some say the group has too much money simply to vanish from the scene, it is doubtful Venturetech will ever again enjoy its earlier opportunities or autonomy, especially while its government parents attempt to restore order.

"At this stage of the game, bureaucrats are better than entrepreneurs," says the credit chief. "Now the Ministry of Finance and the Science and Technology people can audit and control the situation. It's in the best interest of the company to change management." ■

POLICIES

Middle Ground

Indonesia heads towards tariff compromise

By John McBeth in Jakarta

The language may have been ambiguous but the message was clear: President Suharto supports tariff protection for new Indonesian industries — at least on a selective basis.

Suharto's guidelines, set down in a January 5 budget speech, appear to give the green light to controversial tariff protection for the $1.6 billion Chandra Asri petrochemical complex, in which one of the president's three sons has an interest. But analysts say Suharto's statements suggest a compromise is in the works on both the tariff rate and its duration.

A Chandra Asri director indicated in December that the company wanted a 40% tariff on imported propylene and ethylene during the plant's first eight years of operation. Bambang Trihatmodjo, Suharto's second son and one of the main partners in the project, recently amended that to 30% over the same period.

The government's Tariff Committee is due to meet on January 13 to consider Chandra Asri's request. However, the six ministers on the panel already have their presidential brief: Suharto told Parliament that because it takes time for new industries to become competitive, reducing protection would have to be done selectively and in stages.

At the same time, he offered a word of caution. Protection "must meet certain conditions," he said. First, it must be given only for a limited period and then gradually reduced — "the sooner the better." Second, it should not be contrary to international agreements nor stifle downstream industries.

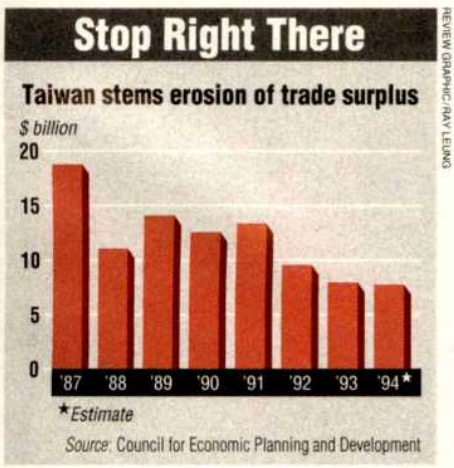
Among Bambang's partners in Chandra Asri are Barito Pacific timber tycoon Prajogo Pangestu and businessman Henry Pribadi, all of whom are also the principal shareholders in American-listed polypropylene producer Tri Polyta Indonesia. The firm has agreed to buy a substantial portion of Chandra Asri's propylene.

Industry sources say a compromise that could emerge from the Tariff Committee would provide 20-30% tariff protection for Chandra Asri in exchange for cuts in Tri Polyta's existing protections — a 20% duty on polypropylene imports and an occasional 20% tariff surcharge. ■

Could've Done Worse

The Year of the Dog was kinder to Taiwan than many expected. The year began with worsening trade data and sluggish domestic investment. It ended with the most bullish export growth in three years and various expansion projects announced by manufacturers, especially in electronics and petrochemicals.

GNP grew 6.1%, marginally greater than in the previous two years and 0.2 percentage point higher than the government originally forecast. Among the surprises, the island's alarming trade deficit with Japan narrowed slightly to $14 billion, about $200 million less than in 1993 and the first decline in a decade. Analysts attribute that to the yen's sharp appreciation. (Taiwan's own currency, now at around 26.3 to the U.S. dollar, moved little last year.)



Another healthy sign: Taiwan's exports grew 8.8% in 1994, twice as fast as a year earlier, helping to keep the trade surplus at an estimated $7.7 billion, only slightly lower than in 1993. The surplus had shrunk sharply in the previous five years (*see chart*). Though the current surplus is the lowest in a decade, the shrinkage is no longer so alarming.

Elsewhere, private investment rose 12.2%, slightly faster than a year earlier, while the savings rate slipped to 28.2%, one of the lowest in East Asia, according to the central bank. Money-supply growth exceeded the central bank's 10-15% target range. For the year ending October 31, the latest figures available, M1B (currency and deposits) rose 18%. Foreign reserves at the end of November stood at $92.3 billion, the world's second-highest after Japan.

Among mixed blessings in 1994 was the escalating trade surplus with Hong Kong and China, estimated to top $20 billion, up almost 20% from 1993. (Since it's difficult to separate Hong Kong and Chinese trade data, many Taiwanese economists prefer to lump the two together.) A steady buyer of semi-finished industrial products, China is now the second-largest market for Taiwanese goods.

The trade deficit with Europe widened to more than $3 billion in 1994 from a mere $630 million the year before, mainly due to increased imports from Eastern Europe and the former Soviet Union, say trade reports.

Several domestic indicators continued to track predictable paths. The unemployment rate stood at 1.5% at the end of December and consumer prices rose 4.1% during the year. The Directorate General of Budget, Accounting and Statistics calculated per-capita GNP for 1994 at $11,629 on a total GNP of $244 billion.

Another important trend last year was the internationalization of capital raised by Taiwanese companies. The Securities and Exchange Commission approved 20 applications for corporate bond issues, worth $2 billion. Taiwanese companies also made eight issues of global depositary receipts, raising $580 million. Foreign capital raised in 1994 exceeded the cumulative total for the previous five years and was at least three times larger than that raised on Taipei's stockmarket.

The island's residential and commercial construction industry continued to slump, with vacancy rates as high as 25%. Applications for new housing licences dropped by 10% during the year, a trend expected to continue in 1995.

The government's long-term economic strategy lurched forward in early January when the cabinet approved plans to open the equivalent of direct transport links to China through "offshore" shipping zones at Taiwan's major ports. The plan also envisions turning Taiwan into a regional operations centre for multinationals, as well as a transport, telecommunications and shipping hub. Legislators and others, however, think the plan's one- to three-year timetable is overly optimistic.

Unlike a year ago, 1995 begins with bullish predictions. Economists forecast GNP growth ranging from 6.2% to 7.0%. Many analysts expect the Taiwan Stock Exchange Weighted Index to break 8,000 this year for the first time since 1990.

■ **Julian Baum**

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TRADE

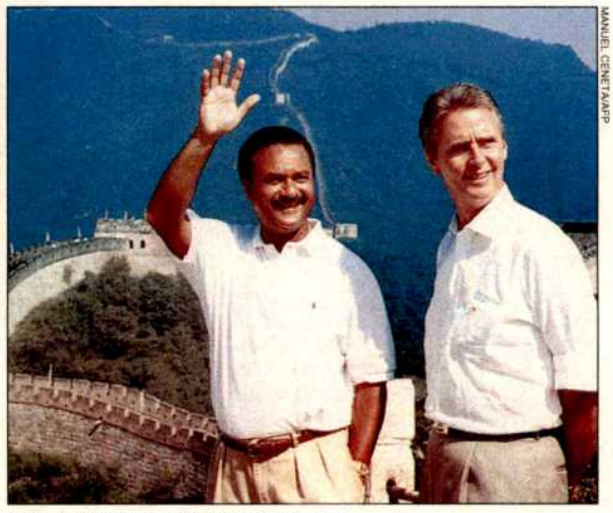
Travelling Salesmen

Commerce Secretary touts U.S. wares in India

By Nigel Holloway in Washington

They were never the closest of friends. For decades, India and the United States vacillated between acrimony and ambivalence, coolly avoiding cooperation or even rapprochement. As India's ambassador to Washington, Siddhartha Ray, puts it, their relations were "marked by lost opportunities." The message from Washington is that those days are over, at least in economic terms.

U.S. Commerce Secretary Ronald Brown has much-ballyhooed plans to lead a trade and development mission to India on January 14. Joining him will be 25 chief executives of American firms such as Motorola and the power company Cogentrix, which have big projects either under way or being planned in India. Behind them will be a handful of U.S. government agencies that arrange how countries like India can pay for the infrastructure projects and hi-tech production equipment that Brown is trying to sell. A similar entourage accompanied the commerce secretary to China in August.



MANUEL CENETA/AFP

Brown (*left*) made waves in China.

Brown's trade trips to Asia are the most visible sign that the Clinton administration has taken a different approach to exports and foreign policy than its Republican predecessors (*see related story on page 14*). Presidents Ronald Reagan and George Bush did little to promote American exporters. Bill Clinton, however, heads a government team of super-salesmen that travel the world in support of firms such as Boeing, Coca-Cola and General Electric.

"In a departure from the behaviour of previous administrations of both parties, we have unashamedly been an active partner in helping our business enterprises to win contracts abroad," Clinton told businessmen gathered in Jakarta for the Asia-Pacific Economic Cooperation forum in November.

Already, America is India's biggest trading partner, investor and supplier of technology, says Ambassador Ray. In 1993, India bought $2.8 billion in U.S. goods and services; exports to the U.S. reached $4.6 billion. India's liberalizing economy is the only large Asian market in which U.S. investment is greater than Japan's. With much public fanfare, Indian and American businessmen are expected to sign billions of dollars in deals during the Brown visit.

Besides Brown, the Clinton salesmen include former investment bankers Jeffrey Garten, the undersecretary of commerce for international trade, and Kenneth Brody, president of the Export-Import Bank. The bank gives loans to buyers of U.S. goods and services, or guarantees the buyers' financing.

Then there's Ruth Harkin, president of the Overseas Private Investment Corp., which provides loan guarantees for U.S. investments abroad, and Joseph Grandmaison, director of the Trade and Development Agency, which finances American companies' feasibility studies of projects overseas.

Asia has received lots of attention from the sales team because — as Clinton told businessmen in Jakarta — one third of U.S. exports now go to Asia. The exports support more than 2 million American jobs. Another 1.8 million jobs could be added over the next 10 years as exports rise. "These facts compel us to remain ever more committed to deeper, deeper and deeper economic, political and security engagement in Asia," Clinton said.

U.S. businessmen have in the past complained that Washington does little for them while Europe and Japan have officials and businessmen working hand-in-glove to capture export contracts. Not surprisingly, they give the new export strategy high marks. After all, Brown's trip to China led Westinghouse Electric to a $140 million steam-turbine generator deal. And IBM came home with a $9 million joint venture for advanced data networks.

"I'd have to give [the administration salesmen] an 'A'," says Edwin Lupberger, chairman of Entergy Corp., a power-plant

Risky Territory

With help from the United States Export-Import Bank, an American commercial lender backing a project in China or India should be able to "feel as though it is lending in its own country," says Kenneth Brody, the bank's president.

Even political risks are manageable, Brody adds. As head of Ex-Im, a government bank that arranges loans for buyers of U.S. exports, he presided over the authorization of $4.6 billion in financing and insurance in Asia in the year to September 30. This sum supported $5.3 billion of U.S. exports to Asia, up from $1.5 billion in fiscal 1991.

A dramatic worldwide increase in the number of private power projects is influencing the expansion of government-run export-credit agencies like the Ex-Im Bank. Few other entities have the money to cover these giant projects, and governments are often alone in daring to swallow the risk of lending in countries with modest political stability and undeveloped legal systems.

These agencies are taking the risk of "limited-recourse" project finance, where repayment is based on the cash flow from the project rather than a sovereign guarantee of the debt. The upside is attractive to governments: Every time an export-credit agency clinches the key share of a project, vast sums of procurement orders flow to businesses in the agency's country.

America's Ex-Im — the world's biggest export-credit agency — set up its project-finance division last June. It appears to be ahead of the pack in limited-recourse lending, according to project-finance lawyers. And Asia is fast overtaking Latin America as its biggest borrower, Brody says.

In Asia, the bank is most active in China, where it authorized $1.1 billion in loans and insurance for projects last year. Now, Brody is thinking of station-

developer based in New Orleans. While in China with Brown, Lupberger signed a memorandum of understanding on a power project in the northern province of Shanxi and another one in Guangdong, in southern China. "Had [Brown] not been there, the Chinese would probably still be negotiating," he says.

In India the story is much the same. American-based companies like Lupberger's are developing six of the first seven private power projects in the country; some are worth billions of dollars. In some cases the firms received their mandates to develop the power stations more than a year ago. Yet important questions of financing may not be resolved until the commerce secretary arrives in New Delhi.

The U.S. companies want guarantees that they will be paid for the electricity they will be providing. In India, state-run boards sell electricity to consumers on behalf of the power-project owners, and the state governments effectively guarantee the boards' revenue obligations towards the power companies. New Delhi has told the American firms it will in turn certify, or counter-guarantee, a portion of the state governments' guarantees — enough to service the companies' project-related debt.

However, only one of the seven projects has received such a counter-guarantee from New Delhi in writing. (It's being built at Dabhol on the Maharashtra coast by Texas-based Enron.) Two more projects expect Brown's visit to prompt New Delhi to issue counter-guarantees for them.

Although the Export-Import Bank prefers that such vouchers be in place before it approves loans to overseas firms buying American goods, it does not require them, says Dianne Rudo, co-head of the bank's project-finance division. The dollar diplomats argue that in the international race of project finance, such flexibility allows Ex-Im to provide financing for more projects, which means more construction and equipment contracts for U.S. firms. Indeed, the U.S. government bank is extending its reach. It financed $5.3 billion in U.S. exports to Asia in 1994 compared to $1.5 billion in 1991 (*see box*).

To be sure, American firms have done well in the infrastructure-building business, putting up power plants and digging dams in India, China and the Philippines, putting an officer in China to develop the business.

Made in U.S.A.

U.S. exports to Asia: They may rise even faster with the Clinton administration's help

* First 10 months of 1994; first 10 months of 1993=108

Source: U.S. Department of Commerce

REVIEW GRAPHIC/RINGO CHUNG

Ex-Im's first two project finance deals, for American equipment and services on power projects in the Philippines, totalled $362 million. The bank is currently reviewing 11 more cases in and outside Asia. Limited-recourse lending exposes the agency to unfamiliar risks, however, including the possibility that a debtor won't have enough foreign exchange to repay the loan, explains a project-finance lawyer.

The sheer size of some deals is also new for export-credit agencies: The Paiton power project in Indonesia, which Ex-Im may help finance, could expose the bank to the tune of $400 million, according to a source familiar with the project.

Observers say aggressive lending by Ex-Im could spark a risky subsidies war among the world's export-credit agencies. While the OECD has guidelines that restrict the agencies from undercutting each other in some ways, the guidelines don't cover the type of security required for limited-recourse loans.

It's not clear how defaults or other problems would be redressed, either. The agencies are at times lending money for projects in countries with undeveloped legal systems. Mark Kantor, a project-finance lawyer at Milbank, Tweed, Hadley & McCloy in Washington, says: "It's an open question whether the liens [collateral claims] on a power company in the middle of, say, China are any good."

Brody dismisses the suggestion that his bank is taking on too many risks. "You can evaluate the risks and charge accordingly," in the form of higher fees to the borrower, he says. Indeed, Brody wants to broaden the range of political risks that the agency insures against.

■ **Nigel Holloway**

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pines. And that's just Asia. Their competitive edge partly stems from the fact that the U.S. has been building private power plants longer than any other country, and the recently weakened dollar makes American firms attractive.

But an edge can be blunted. Supporters of Washington's export activism say European and Japanese export-credit agencies can still tip the scales in favour of their own firms by offering softer loan terms.

Brody of the Ex-Im Bank is only too keen to meet the challenge. The bank now aims to match foreign governments' practice of tying export credit to the debtor's purchase of particular goods and services. Ex-Im says it helped win two contracts in Indonesia this way in November: one worth $25 million for barge equipment, and a $104 million deal to sell radio equipment to the government.

In addition, Ex-Im is easing its terms for the security it requires from borrowers. In one example in October, the bank participated for the first time in risk-sharing with Indian bank guarantors on a $47 million loan to government-owned Indian Petrochemical Corp. Ex-Im is extending 20% of the loan on the strength of the company's balance sheet alone.

In China, Commerce Secretary Brown went one step further: "We are committed to going beyond simply ensuring that American firms find a level playing field around the world. We are also committed to playing to win," he told members of the American Chamber of Commerce in Beijing. "The U.S. Government is now playing an activist role on your behalf and we plan to turn up the heat."

Asked how Ex-Im translates this into action, Brody says: "We want to create a level playing field for U.S. companies and to compete with other [export-credit agencies], based on creativity and service." That means establishing specialist divisions such as aircraft finance and project finance at the bank, Brody says.

The U.S. Congress may have other ideas. The dominant Republicans have said they want to cut $1.4 billion from Ex-Im's budget before September 1999. Ex-Im's annual trade-promotion budgets have been around $800 million.

Many congressional Republicans and other critics of dollar diplomacy argue U.S. firms don't need help from the government. "It makes no sense to pay people to buy your stuff," says Edward Hudgins of the Cato Institute, a libertarian think-tank in Washington. He adds: "The fact that other countries do it is just a case of mutually assured destruction."

Clinton may be able to ally with big business to exclude Ex-Im Bank from the budgetary axe. If he does, Asia can expect more visits from Washington's super-salesmen. ■

TRADE

EMMANUEL DUNAND/AFP

Mobile store: Beijing dealer displays pirated compact discs.

Back to Normal

U.S.-China trade war looms closer

By Kari Huus in Hong Kong

It's hard to believe that just a few months ago American and Chinese trade officials were engaged in a lovefest. After talks with Chinese leaders in Beijing in September, Secretary of Commerce Ron Brown left China raving about the two countries' commercial ties. "It would take a pretty negative person to find a cloud today," he beamed.

These days the trading partners are back on more familiar turf: slinging invective and threatening trade warfare. At issue this time is China's piracy of American creations ranging from Walt Disney's *Lion King* and Levi jeans to Microsoft's Windows computer program. Washington claims American businesses lose more than $1 billion a year to China's pirates.

Now the question is whether China can convince the United States it is committed to protecting intellectual property — items covered by patents, copyrights or trademarks — in time to avert a trade war. Eric Leung, a vice-president at Lehman Brothers in Hong Kong, is part of the majority who predict the row will end peacefully. But if not, he notes, "1995 is going to be a pretty ugly year."

Washington launched a six-month "Section 301" investigation of China's intellectual-property rights protection last July. If China is not seen to be making progress on copyright protection by February 4, the U.S. could impose sanctions.

While China has dramatically improved its intellectual-property laws in the last three years, Washington wants to see more enforcement. Among the most flagrant copyright violators are 29 factories pirating some 75 million compact discs a year. Copied software, meanwhile, accounts for 94% of that used in China, according to the Business Software Alliance, a Washington-based trade group representing American companies.

So far the U.S. is not only unimpressed but exasperated. Trade negotiator Lee Sands stormed out of the last round of talks, in mid-December. A few weeks later, the U.S. released a list of imports from China worth $2.8 billion that could be subject to tariffs of up to 100%, starting from February 4.

Already angered by what it considers a deliberate effort by the U.S. to block its re-entry into Gatt, China has come up with a list of possible retaliatory measures. It threatens to suspend joint-venture negotiations with U.S. auto companies (Chrysler has been singled out as one of the first potential victims); penalize pharmaceutical and entertainment companies; and impose tariffs of up to 100% on American goods including videogames, alcoholic beverages and cosmetics.

Despite the rhetoric, there's still room for compromise. The two sides have agreed to go back to the bargaining table on January 18-20 in Beijing. Even if there is no resolution by February 4, U.S. Trade Representative Mickey Kantor has the power to delay sanctions, or take other "appropriate action."

Beijing has certainly been eager to demonstrate its enthusiasm for curbing piracy. Recent articles in the Chinese press have trumpeted hundreds of raids on retail outlets selling pirated goods. The official Xinhua News Agency reported that in Shanghai complaints about piracy can be made to a new 24-hour hotline, although the hotline later turned out to be bogus. And on January 5, Beijing ordered a nationwide boycott of pirated goods.

But this isn't likely to satisfy Washington. The U.S. wants China to raid manufacturers of pirated goods rather than retailers or customers, who are too numerous to curtail. Washington also wants China to beef up its customs' authority.

China watchers believe that if Beijing initiates policy changes and makes immediate moves to shut some of the compact-and laser-disc factories, it could forestall U.S. sanctions. "We've given them a list of names, phone numbers, fax numbers," says a senior U.S. trade official. "We even jokingly offered them satellite pictures." ■

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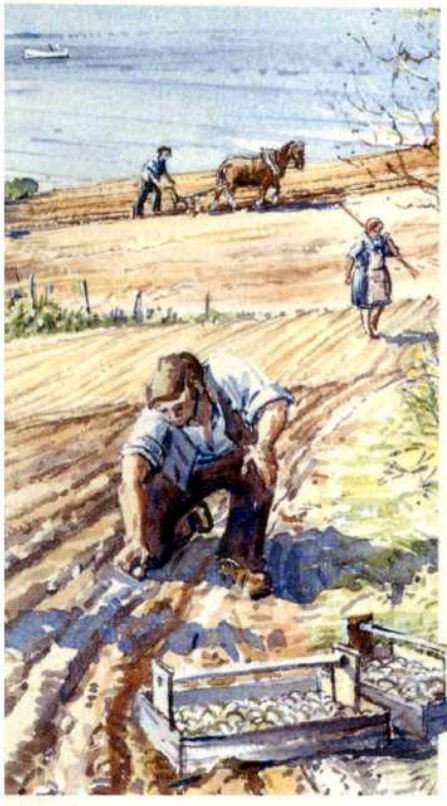

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Landed, at Last

Taiwan signs deal to build civilian jet

By Doug Denton in Martinsburg, West Virginia

It would be hard to imagine a more unlikely site for the birthplace of Taiwan's civil-aviation industry — down a winding road in rural West Virginia, beyond Bender's Farm Services, Dock's Gun Shop and the Charity Revival Centre.

But on January 5, 150 people filled a hangar at the Eastern West Virginia Regional Airport for a signing ceremony. Linked by satellite with a twin gathering in Taipei, they marked the birth of Sino-Swearingen, Taiwan's first civilian aerospace venture.

The 50:50 venture between Taiwan's Sino Aerospace Investment Corp. and Swearingen Aircraft of San Antonio, Texas, will assemble the Swearingen six- to eight-seat SJ30 corporate jet. A formal contract-signing was due to take place in Taipei on January 12.

The West Virginia ceremony was attended by Yang Shih-chien, Taiwan's vice-minister of economic affairs. Noting that Taiwan has pursued its ambitions in civil aviation for nearly a decade, he called the agreement "a significant step forward in cooperation between our two countries' aerospace industries."

Having twice failed to secure a foothold in the industry, however, Taiwan's aviation future is still far from assured. The crucial question: Will the $3 million SJ30 fly in the marketplace? Although a welcome source of jobs and revenue in West Virginia, the deal has received only a lukewarm response in Taiwan. Local investors worry about the joint venture's profitability and whether it will significantly help Taiwan in its real goal: gaining hi-tech aviation expertise. Taiwan will produce only some of the aircraft's parts and ship them to West Virginia.

This lack of enthusiasm suggests the project is more about politics than profit. Industry observers in Taipei say Taiwan Aerospace Corp., a member of the Sino Aerospace consortium, was strong-armed into the deal by the Taiwan Government.

Indeed, the venture's modest scale is a sign of a humbled Taiwanese push into aviation. Taiwan Aerospace was set up by the Taipei government (which holds 29%) and several local syndicates in 1991 to spearhead the effort. The following year it entered talks with McDonnell Douglas of the United States on a $2 billion project to produce wide-body MD12 jets. But that deal was aborted because, among other things, Taiwan Aerospace was unable to sell it to its private-sector investors. And in 1993, a $775 million plan to build 70- to 115-seat jets with British Aerospace stalled over technology-transfer and financing disputes.

The SJ30 (*bottom*): the only one that didn't get away.

The latest project is similarly dogged by concerns over its commercial viability. Ed Swearingen, founder and chairman of Swearingen Aircraft, has struggled for four years to raise financing to build the SJ30.

Enter the politicians. Two years ago, West Virginia Senator Jay Rockefeller wooed Swearingen with financial incentives designed to bring jobs and high-technology industries to the state. In September 1992, Swearingen agreed to set up a local factory.

Since then Rockefeller has been the SJ30's biggest cheerleader. He has helped the project secure state loans, financing from local banks and a tax break for guaranteeing that 60% of the factory workers will be hired locally. In addition, the U.S. Economic Development Administration will grant-aid the industrial park where Sino-Swearingen will be based.

According to Benjamin Lu of the Taipei Economic and Cultural Representative Office in Washington, Rockefeller also helped set up the Taiwan deal, pitching the $150 million joint venture to Vice-Minister Yang and Sun Tao-tsun, chairman of Taiwan Aerospace. "The government was interested [and] brought the companies together," says Lu.

Under the terms of the deal, Sino Aerospace will invest $48 million in a 50% share of Sino-Swearingen. Besides Taiwan Aerospace, the Taiwanese consortium includes several top Taiwanese companies: consumer-electronics firm Tuntex, food group President Enterprises, Chinfon Group, United Microelectronics and Yao Hua Glass.

On the U.S. side, public and private venture capital funds in West Virginia will invest more than $11 million in the project. Other financing includes $4 million from state loans, $2 million from the federal government, and an estimated $27 million from commercial banks.

Lockheed will provide technical and management assistance and has contributed $10 million. This sum is part of obligations it made to reinvest in Taiwanese ventures when it sold F16 fighters to Taiwan in a $6 billion deal in 1992. Lockheed employees will staff key posts in the organization, but Lockheed will not be a shareholder.

So far, Ed Swearingen says, the SJ30 has won 65 orders worth $175 million. A delivery date hasn't been set, but the chairman says it will be about 26 months from the time letters of credit are received. The company expects the first prototype to begin test flights in six months and a second one in eight months.

Selling the jet, however, could be an uphill battle. "Sino-Swearingen lacks the international support and sales network and doesn't have a history of production like [rival producer] Cessna does," says Paul Proctor of *Aviation Week* magazine.

Proctor figures the potential market for the aircraft is about 10-30 sales a year. Sino-Swearingen, he points out, will have to win orders against established American and European aircraft makers. Cessna, for example, is marketing its similarly priced five- to seven-seat CitationJet and has delivered more than 75 of the jets since the aircraft was launched a year and a half ago.

Will Taiwan get the hoped-for benefits? "The SJ30 programme is probably a reasonable bite for Taiwan to take," Proctor says. "I don't think they are going to get leaps and bounds of technology out of it, but they'll get experience with a Western aerospace project. With Lockheed running it, it certainly will be done in big-plane fashion." ■

PROPERTY

Take No Prisoners

Metro Pacific trounces rivals for Philippine site

By Rigoberto Tiglao in Manila

The directions to executives of Manila-based Metro Pacific from their bosses couldn't have been clearer: Get Fort Bonifacio. "The marching orders were issued right after the bidding was announced," says a Metro Pacific official. "It is the last huge piece of prime property that would be available in Manila."

Tenders for the 214-hectare military camp were unveiled in a Manila hotel ballroom on January 6. As overhead projectors flashed the five bids on huge screens, it took only seconds for those assembled to determine who had won Southeast Asia's biggest property auction.

The huge screens revealed something else as well — that Metro Pacific's bid of 39.2 billion pesos ($1.6 billion) was almost one third bigger than the next-highest bid of 28.7 billion pesos from Ayala Corp.

"It was a bid to win," Metro Pacific President Ricardo Pascua says. Metro Pacific, a subsidiary of the First Pacific group of Hong Kong, led a 12-member consortium to clinch the site. The Indonesia-based Salim family that controls First Pacific "decided not to take chances," adds Dan Antonio, executive vice-president of Metro Pacific subsidiary The Land Co.

Explains another company official: "It would catapult [the Salim family] presence from a hodgepodge of manufacturing and marketing outfits into a property giant rivalling the premier real-estate conglomerate, Ayala."

A six-man committee mainly representing the three core companies in the Metro Pacific consortium decided what bid to make, said a source close to the group. The six were Metro Pacific Chairman Manuel Pangilinan and President Pascua; Filinvest Chairman Andrew Gotianun and Vice-President Joseph Yap; Philippine Realty Vice-Chairman Antonio Olbes; and Teodoro Borlongan, president of Urban Bank.

Although Urban Bank is co-leader of the consortium, the bid was clearly a First Pacific play. Its Philippine subsidiary has a controlling 25% stake, with the other 11 consortium members holding 6.8% each. (Urban Bank's controlling stockholder is Philippine National Bank President Arsenio Bartolome, who previously headed the government's Bases Conversion Development Authority, which owns Fort Bonifacio.) The group will have 55% control of the residential and commercial development through a joint venture with the government.

The Salim clan has operations in 25 countries, but the fort — the size of about 400 football fields — is its biggest investment to date. The 9.8 billion-peso equity share, half due on February 13 and half within a year, is double the value of all of Metro Pacific's assets — including its 16 Philippine subsidiaries. Metro Pacific, however, will have help from its overseas affiliates in financing the venture.

JOSE REINARES

Metro Pacific's Pangilinan (*centre*) celebrates his auction triumph.

First Pacific is used to buying and then turning around small or medium-sized firms. So why did it take such an expensive bite of Manila real estate? The answer is not just because its managing director, Manuel "Manny" Pangilinan, is a Filipino.

Some industry observers say the consortium's "bid to win" was driven in part by the fierce feud that consortium members Philippine Realty and Filinvest are having with losing bidder Ayala. Philrealty and its controlling Ortigas family, are still sore that Ayala blocked their effort to have the Philippine Stock Exchange relocated in their new building in Manila's Ortigas district, say property-industry sources.

Filinvest's disdain for Ayala is even deeper, the sources say. Its officials have accused Ayala of trying to torpedo their efforts to develop a 244-hectare site in Alabang, next to the Ayala-dominated Makati business district. Ayala's protest that Filinvest's winning bid for the site in 1990 was anomalous caused a two-year delay that cost Filinvest millions of pesos.

A Filinvest official said before the Fort Bonifacio auction that Chairman Gotianun and his wife Mercedes "are bitter with Ayala, and they've made it known that they're willing to spend whatever's needed for Ayala not to get the Fort Bonifacio property." Sources privy to the discussions of the bidding committee said it was Gotianun, in one of the last meetings of the group, who pushed for a clearly superior bid — even pledging to take up the extra costs. Indeed, Filinvest is likely to take an additional 5% stake in the project, says Metro Pacific Executive Director Seamus Gallacher. Details have yet to be finalized.

Metro Pacific maintains that the bid's about math, not family politics. Gallacher says the company calculated Fort Bonifacio's effective price at 57,500 pesos a square metre. (It judged that 60% of the estate would be available for sale and 40% would go to open spaces such as roads.) Development costs would run to 2,500 pesos a square metre, bringing the price to 60,000 pesos, it reckoned.

Metro Pacific figures it got a bargain when the price is compared to those prevailing in Makati. "The weighted average price for both commercial and residential lots in Makati is 77,500 pesos," Gallacher says. "I'm sure there'd be property appreciation even only in the next two years, when we could start selling off some of the land."

A property consultant who advised a competing consortium says Metro Pacific's arithmetic seems off: "For one thing, that doesn't take into account the huge supply that will be offered" when Fort Bonifacio starts to enter the market, possibly suppressing prices, he says.

This may be what Ayala and the two other bidders calculated, too. It may also be what made them lose. Ayala Vice-President Fernando Zobel has yet another theory about the winning bid: "Maybe they know something we don't know."

What is clear is that an Indonesian conglomerate now controls what may become the foremost business district in Manila. Add to this the recent sale of Petron Corp. to Saudi Arabia's Aramco and the sale of National Steel to Malaysia's Westmont, and you get the question posed by Manila newspaper columnist Max Soliven: "Are the Indonesians and Malaysians buying up the Philippines?" ■

BUSINESS BRIEFING

SOUTH KOREA

Real-Name Real Estate

Landowners will be required to register their property under their own names from July 1, President Kim Young Sam said. The step parallels Kim's move in 1993 towards a real-name banking system, prohibiting the use of false names in bank accounts.

TAIWAN

Tatung Ups Investment

Tatung, the country's third-largest company by sales, said it plans to invest $340 million in 1995, mostly to expand production at Chung Hwa Picture Tubes, a highly profitable subsidiary. Chung Hwa has factories in Taiwan, China and Malaysia and accounts for nearly half Tatung's total revenues, estimated at NT$35.5 billion ($1.3 billion) in 1994.

VIETNAM

Industry Zone Approved

Hanoi approved a $46 million plan to turn a former American military base near Ho Chi Minh City into an industrial zone. Bangpakong Industrial Zone Development Co. of Thailand will take a 70% stake in the venture, with Bien Hoa Industrial Zone Development Co. of Vietnam holding the rest. The zone will be the second of its kind in Vietnam; a $120 million venture has been approved in the northern port city of Haiphong.

UNITED STATES

Japanese Cars Rebound

Japanese car firms clawed back a 0.2 percentage point share of the American market for cars and light trucks, closing 1994 with 23.3% of total sales. The Big Three American makers lost 0.7 point to finish with 73.2%. Total sales rose 8.1% to 15.1 million vehicles. Japanese makers offset an 11% rise in the yen's value against the dollar by offering customers attractive leasing terms and shifting more production to the U.S.

RON McMILLAN

South Korean property: Kim issues new rules.

INDIA

AT&T Links With Birla

American telecoms giant AT&T announced a tie-up with the Aditya V. Birla group to bid for basic and cellular-telephone services in India. Nineteen telephone regions are soon to be opened for tenders by private enterprise. If the allies win a bid, they will form a joint venture with AT&T taking 49% equity.

Daimler Eyes 'Family Car'

Daimler-Benz chairman Edzard Reuter said the German car maker is weighing plans to produce a small "family car" in India in partnership with Tata Electric & Locomotive Co. If it goes ahead, Daimler-Benz will invest 500-600 million Deutsche Marks ($300-375 million) to make cars with 1000cc engines, selling for $6,000-7,000. Another Daimler venture with Tata Electric will start making an existing Mercedes-Benz model from April at Tata's plant in Pune, western India.

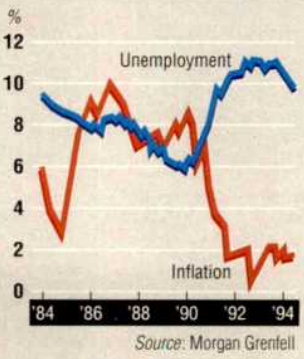
HONG KONG

StarTV Takes Partners

Four entertainment firms bought a combined 50% of StarTV's Channel V music-video channel. The partners are units of Bertelsmann of Germany, Thorn EMI of Britain, Sony of Japan and Time Warner of the United States. Channel V launched in May 1994 after Star severed ties with Viacom's MTV.

Indicators

Inflation and unemployment in Australia, 1984-94



Source: Morgan Grenfell

REVIEW GRAPHIC: SIMON WONG PHOTO: KENNY RODDER/REUTER

BANGLADESH

Korean Firm Plans Plant

South Korea's Tae Hung Paper Manufacturing Co. signed a memorandum of understanding with the local Unique Group to set up a $120 million paper plant in Bangladesh. The Korean company will hold 60% of the equity. Almost 70% of industrial-grade paper to be produced will be exported. The partners also plan to produce newsprint.

INDONESIA

Esso Signs Natuna Deal

State-owned oil company Pertamina and Esso Indonesia signed a basic agreement for the $35 billion development of the Natuna gas field. But neither Pertamina president-director Faisal Abda'oe nor A.N. Crownover, president of Esso, a subsidiary of Exxon, would disclose the terms. Talks on the deal have been dogged by the costs of dealing with the field's high carbon-dioxide content.

CHINA

Hong Kong Paper Halted

In another apparent crackdown on foreign media investment, Beijing stopped printing of the English-language *Hongkong Standard*. Since September, the *Standard* had printed a small number of copies in Beijing, becoming the first foreign newspaper to win that right. But it was told it could no longer use the presses at the state-owned *China Daily* because of "technical and print-capacity problems." Authorities also recently shut down a Sino-Hong Kong joint-venture newspaper in Guangzhou without official explanation.

PRICES & TRENDS

Commodities

Latest sale to Jan. 9		Latest	Previous week	3 months ago	Year ago
Gold	London (2)	372.50	382.50	391.90	382.50
Copper	New York (3)				
Current delivery (Jan.)		137.40	140.35	114.65	78.25
Mar. delivery		136.30			
Aluminium	London (7)				
Current delivery (Jan.)		2,020.50	1,951.50	1,634.50	1,132.50
Tin	Kuala Lumpur (1)	15.13	15.05	13.65	12.18
Cotton	New York (3)				
Current delivery (Mar.)		88.58	90.35	67.45	68.29
May delivery		88.55			
Rubber	Kuala Lumpur (8)				
Current delivery (Feb.)		405.50	390.00	355.00	214.00
Mar. delivery		405.50			
Jute	Dhaka (11)	338.00	338.00	338.00	260.00
Palm Oil	Kuala Lumpur (4)				
Current delivery (Jan.)		1,585.00	1,635.00	1,356.00	975.00
Mar. delivery		1,515.00			
Sugar	New York (3)				
Current delivery (Mar.)		15.74	15.17	12.47	10.58
May delivery		15.79			
Pepper	Singapore (9)				
Sarawak Asta blk 100%		360.00	355.00	395.00	237.50
Wheat	Chicago (5)				
Current delivery (Mar.)		394.40	401.40	412.20	391.40
May delivery		374.20			
Maize	Chicago (6)				
Current delivery (Mar.)		231.60	231.00	214.20	309.00
May delivery		239.00			
Rice	Bangkok (7)				
5% white fob		280.00	280.00	300.00	380.00
Soyabeans	Chicago (5)				
Current delivery (Jan.)		549.00	550.60	527.20	694.20
Mar. delivery		558.40			
Cocoa	New York (7)				
Current delivery (Mar.)		1,341.00	1,280.00	1,253.00	1,138.00
May delivery		1,363.00			
Coffee	New York (3)				
Current delivery (Mar.)		174.95	168.85	192.90	72.50
May delivery		175.95			
Petroleum					
Sumatran light	Tokyo (10)	16.70	16.45	16.50	14.30
Brent	London (10)	16.28	16.47	16.64	13.74

(1) M$ a kg (2) US$ an oz (3) US¢ a lb (4) M$ a tonne (5) US¢ a 60 lb bushel
(6) US¢ a 56 lb bushel (7) US$ a tonne (8) Int 1RSS M¢ a kg (9) S$ a 100 kg (10) US$ a barrel
(11) BWD, Chittagong/Mongla, US$ a tonne *Source*: Telerate, International Jute Organisation

Currencies *US$1 worth:*

Jan. 9		Spot rate†	Previous week†	3 months ago†	Year ago†
Australia	dollar	1.3106	1.2888	1.3534	1.4554
Bangladesh*	taka	40.20	40.20	40.20	39.75
Britain	pound	0.64	0.6408	0.6311	0.67
Brunei	dollar	1.4525	1.4618	1.484	1.595
Burma**	kyat	5.8894	5.8782	5.8144	6.342
Canada	dollar	1.4082	1.4015	1.346	1.3185
France	franc	5.3145	5.383	5.281	5.9045
Germany	mark	1.5393	1.5596	1.5466	1.7335
Hong Kong	dollar	7.74765	7.7324	7.728	7.725
India*	rupee	31.37	31.382	31.3715	31.37
Indonesia	rupiah	2,203.00	2,201.00	2,184.00	2,112.00
Japan	yen	100.17	100.02	100.33	112.40
Macau*	pataca	8.10	8.10	8.10	8.10
Malaysia	dollar	2.5538	2.5553	2.5668	2.671
Nepal*	rupee	49.40	49.40	49.35	46.3772
New Zealand	dollar	1.5713	1.5613	1.6491	1.7899
Pakistan	rupee	30.7292	30.7292	30.6194	30.1199
Papua N.G.	kina	0.84	0.8485	0.9204	0.9781
Philippines	peso	24.496	24.853	25.559	27.6
Singapore	dollar	1.4525	1.4618	1.484	1.598
South Korea	won	791.00	788.70	799.10	811.50
Sri Lanka	rupee	48.447	48.384	47.965	48.14
Switzerland	franc	1.2875	1.3176	1.2838	1.4715
Taiwan	NT dollar	26.368	26.298	26.21	26.463
Thailand	baht	25.09	25.10	25.03	25.55

Communist countries: China US$=Rmb 8.4426 HK$=Rmb 1.0902 Laos US$=Kip 725
Vietnam US$=Dong 11,147
Other: Commonwealth of Independent States US$=Rouble 3,667
SDR1=US$1.45373 ECU1=US$1.2347 S$1=M$1.7589 Cambodia US$=Riel 2,609

**Unofficial rate: US$1=Kyat 100-120 *Official rate †Middle rate
Source: Telerate for spot rates, Dao Heng Bank Ltd. for official rates

Currency Deposit and Bond Yields

Eurocurrency and Asian currency unit deposit rates (%)† Jan. 9	1 month	3 months	6 months	12 months	10 year govt bonds yield
US$	5.8125	6.3125	6.8125	7.625	7.85
Sterling	5.6875	6.00	6.375	7.1875	8.79
Yen	2.25	2.25	2.3125	2.5625	4.82
Swiss Fr.	3.75	4.00	4.25	4.5625	—
Dm	4.90625	5.03125	5.125	5.84375	7.67
A$	7.38	8.13	9.00	9.75	10.41
C$	5.60	6.62	7.43	8.25	9.20
ECU	5.625	6.00	6.9375	6.875	8.77

†Offered rate *Source*: Telerate, Salomon Brothers

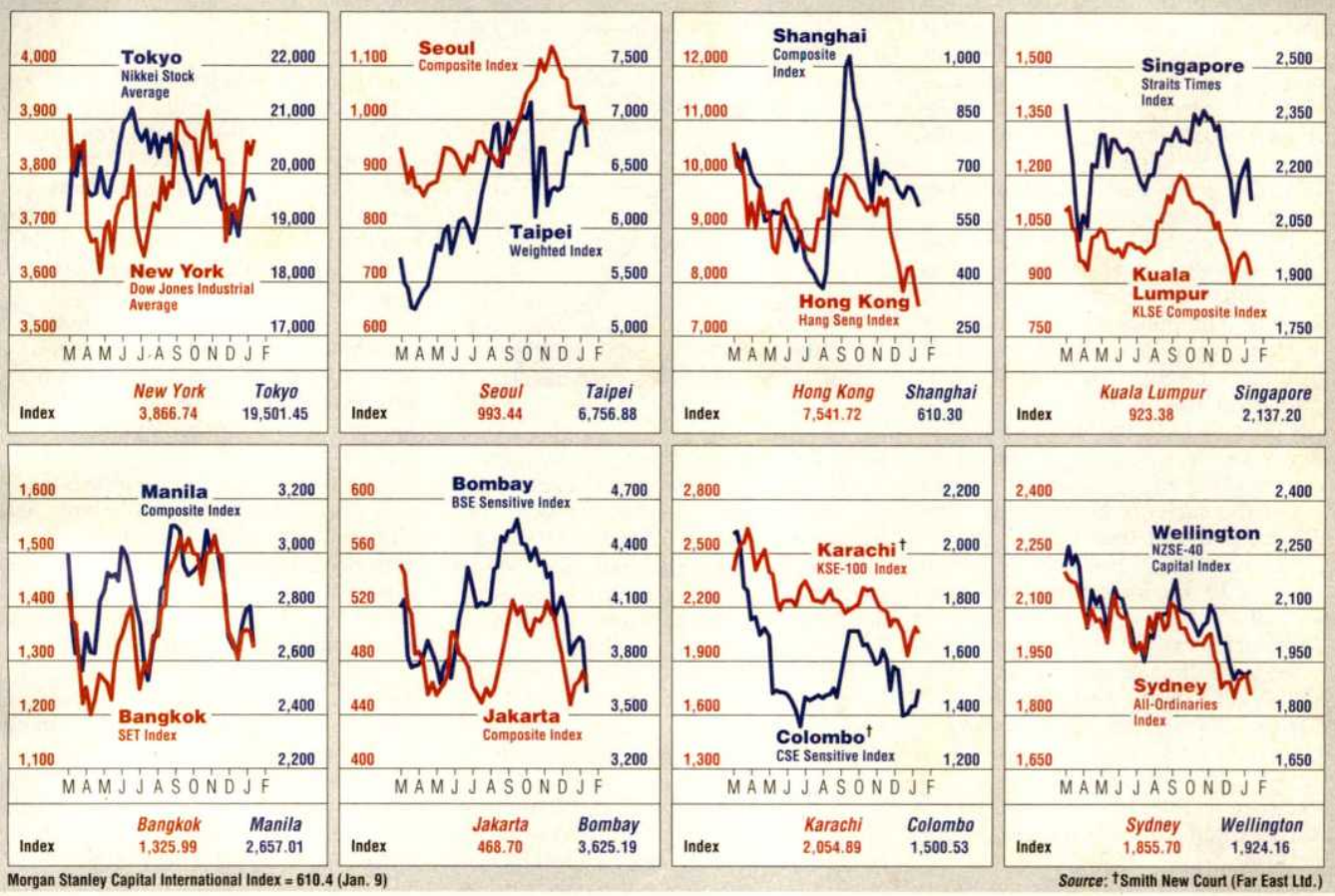
Economic Indicators, Selected Asian Countries

	Australia	China	Hong Kong	India	Indonesia	Japan	Malaysia
Economic Growth % (real) (1)							
1994	5.4	11.0	5.5	5.2(4)	7.0	0.7	8.6
1995	3.9	8.5	4.8	5.5(4)	7.2	1.9	8.3
International Reserves (5)							
Latest	US$11.39b (Oct)	US$36.37b (Jul)	US$43.00b (Dec 93)	US$20.16b (Oct)	US$11.31b (Aug)	US$123.73b (Oct)	US$30.21b (Jul)
Year earlier	US$11.20b	US$20.21b	US$35.25b (Dec 92)	US$8.37b	US$11.10b	US$98.20b	US$17.94b
Trade Balance (total merchandise)							
Latest 3 months	-US$1.74b (Jul-Sept)	+US$2.18b (Jul-Sept)	-US$2.42b (Sept-Nov)	-US$0.63b (Aug-Oct)	+US$2.55b(8) (Jun-Aug)	+US$29.76b (Sept-Nov)	+US$0.22b (May-Jul)
Previous 3 months	+US$0.29b	+US$0.49b	-US$2.16b	-US$0.79b	+US$1.86b	+US$29.73b	-US$0.52b
Year earlier	-US$0.19b	-US$3.01b	+US$0.57b	-US$0.18b	+US$1.95b	+US$30.86b	+US$0.63b
Exports (6)							
Latest 3 months	US$11.90b	US$31.05b	US$42.04b	US$6.30b	US$10.61b(8)	US$105.12b	US$14.73b
% change previous 3 months	-1.9	+6.0	+4.8	+6.2	+13.6	+5.8	+14.7
% change year earlier	-0.2	+28.8	+16.1	+25.0	+16.3	+12.9	+21.9
Imports (7)							
Latest 3 months	US$13.64b	US$28.87b	US$44.46b	US$6.93b	US$8.06b(8)	US$75.36b	US$14.51b
% change previous 3 months	+15.3	+0.3	+5.2	+3.0	+7.8	+8.2	+8.5
% change year earlier	+12.6	+6.5	+24.7	+33.0	+12.4	+21.0	+26.7
Consumer Prices							
Base	Jul 89-Jun 90=100	Sept 1993=100	Oct 89-Sept 90=100(2)	1982=100	Apr 88-Mar 89=100	1990=100	1990=100
Latest 3 months index average	111.9 (Jun-Sept)	127.3(11) (Sept)	150.9 (Sept-Nov)	287.0 (Aug-Oct)	160.4 (Aug-Oct)	107.5 (Sept-Nov)	117.2 (Jul-Sept)
% change previous 3 months	+0.6	n.a.	+2.2	+1.2	+2.5	+0.7	+0.3
% change year earlier	+7.9	+27.3	+8.4	+10.9	+9.3	+0.7	+3.3
Money Supply (3)							
Latest	A$251.0b(9) (Sept)	Rmb 3,322.66b (Jan-Mar)	HK$1,082.24b (Nov)	Rs 4.81t(9) (Oct)	Rps 165.46t (Oct)	¥521.62t (Oct)	M$155.86b (Sept)
% change previous month	+0.5	+10.5(10)	+2.2	+2.9	+1.7	Unchanged	+1.8
% change year earlier	+7.9	+29.2	+1.8	+11.1	+19.3	+2.4	+21.5

(1) Official and other estimates of GDP (GNP in China & Japan for fiscal year) (2) Consumer Price Index A (3) M2 or currency plus bank deposits (4) To March (5) IMF definition of reserves minus gold except for Singapore

Stockmarkets

■ ■ ■ New year brings bad tidings for Asian markets ■ ■ ■ Hong Kong dives towards 7,500 ■ ■ ■ Singapore, Kuala Lumpur, Taipei all lose about 5% ■ ■ ■ Seoul drops below 1,000 ■ ■ ■ Only Wellington edges up in week ended on January 10 ■ ■ ■



Morgan Stanley Capital International Index = 610.4 (Jan. 9)

Source: †Smith New Court (Far East Ltd.)

Philippines	Singapore	South Korea	Taiwan	Thailand
4.5 5.4	10.0 8.5	7.6 7.3	6.4 6.5	8.2 8.8
US$6.59b (Sept) US$4.13b	US$55.09b (Aug) US$45.47b	US$23.68b (Oct) US$19.96b	US$92.28b (Oct) US$84.16b	US$28.89b (Oct) US$24.72b
-US$2.14b (May-Jul) -US$1.78b -US$1.52b	-US$0.94b (Jun-Aug) -US$2.00b -US$2.99b	-US$1.61b (Aug-Oct) -US$1.20b +US$0.66b	+US$3.06b (Sept-Nov) +US$1.98b +US$2.42b	-US$2.24b (Aug-Oct) -US$2.46b -US$1.15b
US$3.42b +16.8 +21.0	US$25.81b +11.4 +38.0	US$24.84b +3.8 +16.8	US$25.83b +12.0 +20.3	US$11.51b +4.5 +15.2
US$5.56b +18.1 +27.9	US$26.75b +6.3 +23.3	US$26.44b +5.3 +28.4	US$22.77b +8.0 +19.5	US$13.75b +2.1 +23.3
1988=100 197.1 (Jul-Sept) +2.5 +9.2	Sept 87-Aug 88=100 120.0 (Jul-Sept) +1.0 +3.9	1990=100 130.8 (Sept-Nov) +0.3 +6.1	1991=100 114.4 (Aug-Oct) +2.3 +6.3	1986=100 144.2 (Aug-Oct) +1.9 +5.5
P487.67b(9) (Jul) +1.8 +28.7	S$88.33b (Aug) +1.2 +14.0	Won 123.51t (Sept) -0.1 +10.9	NT$11.28t (Oct) +1.9 +15.2	Baht 2,658.2b (Sept) +1.6 +13.1

(6) fob (7) cif (8) Including petroleum (9) M3 (10) % change over past 3 months (11) One month *Source*: Official statistics

Interest Rates (%)

Jan. 9	Prime lending	Interbank 1 month†	Interbank 3 months†	Interbank 6 months†
Australia	10.90	7.6875	8.4375	9.23438
Britain	6.25	6.0625	6.5625	7.0625
Hong Kong	8.50	5.75	6.375	7.125
Indonesia	21.00	15.25	15.50	15.75
Japan	*4.90			
	**3.00	2.3125	2.375	2.4375
Malaysia	6.50	4.90	5.30	6.10
New Zealand	9.50	8.75	9.46	9.83
Philippines	14.50	10.00	9.1875	8.8125
Singapore	6.25	2.875	3.5625	4.125
South Korea	††13.85	—	—	—
Taiwan	7.625	—	—	—
Thailand	11.75	8.50	9.00	—
U.S.	8.50	5.875	6.375	6.875

*Long term **Short term ††Monetary Stabilisation Bond (1 year)
†Offered rate *Source*: Telerate and REVIEW Data

SHROFF

HONG KONG

Que Pasa?

In the world of floating exchange rates, there's usually little reason for worry if the value of a currency shifts a bit. But Hong Kong lives in a different world — and it was front-page news here when its currency shed a few Hong Kong cents against the U.S. dollar.

The reason for this concern involves one of Hong Kong's peculiar institutions: the peg. Since 1983, Hong Kong has pegged the value of its dollar at 7.80 to the U.S. dollar, give or take a percent on either side. The policy is a Faustian bargain: Hong Kong gives up control of its interest rates in return for political stability created by the fixed rate.

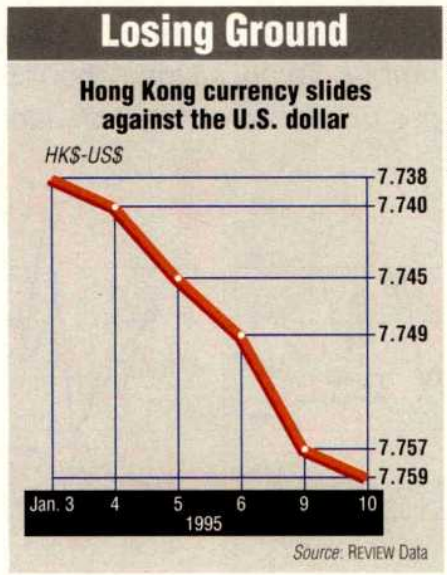
For most of 1994, the Hong Kong dollar remained at the stronger end of its desired trading range — about 7.72 to 7.73. But the currency began weakening in the autumn and then lurched downward at the start of 1995, hitting 7.7660 on January 10, the lowest level in a year and a half.

The decline was particularly worrisome because of its immediate cause: the weakness of the Hong Kong stockmarket. The fall in the currency showed foreign investors not only wanted to get out of the market, they wanted to stay out. "The fear is there will be continuous outflow," says T.C. Chan, Citibank's treasurer for Hong Kong.

Traders noted the outflow picked up after Mexico devalued the peso in late December, raising concerns among foreign — particularly U.S. — investors about the reliability of emerging markets. "People are reviewing their emerging-markets attitudes post-Mexico," says Stuart Gulliver, head of treasury at HSBC Markets.

Hedge-fund circles also began buzzing with talk of shorting the Hong Kong dollar, says Peter Everington, managing director of Regent Fund Management. "A very large hedge fund in New York called me up and said, 'How do we do this?'," he says. "The Mexican crisis has led a lot of American funds to say if the Mexican peso can break, why can't the Hong Kong dollar break?"

That is a silly question, according to Andrew Freris, chief regional economist at Salomon Brothers. Unlike Mexico, Hong Kong is running a current-account surplus. And its foreign reserves are much larger — $43 billion at last count. "I can't see how anybody would bet on the Hong Kong dollar going down," says Freris.



For his part, Everington expects the peg to hold and notes that his New York friends haven't mounted a challenge. Traders say they detected no unusual speculative activity. And the Hong Kong dollar remains on the stronger side of the 7.80 target — hardly a collapse.

But Everington says a weakening Hong Kong dollar has its ominous side. Hong Kong's main defence against a weakening currency is higher interest rates — which would further weaken Hong Kong's faltering property and share markets. This scenario is the reverse of the last few years, when negative real interest rates pushed up stock and property prices.

Everington is hardly impartial. He's been shorting the Hong Kong market for a year. Although bounces are possible along the way, Everington predicts the benchmark Hang Seng Index could slide to 4,000 by the end of 1995 or early 1996 from around 7,600 now. ■ **Gary Silverman**

TOKYO

Semi-Free

To hear some tell it, Japan's decision to liberalize access to its mutual-fund and pension-fund industries was a huge victory for foreigners. It was, after all, the culmination of years-long negotiations.

"The talks go way back beyond the institutional memory of anyone around here today," says a Western diplomat with satisfaction. "We are opening up a $200 billion market here which has been the last bastion of exclusion for foreigners."

That may be something of an overstatement. Nevertheless, the reforms, especially those which will allow foreign investment-advisory firms a crack at managing Japan's huge public pension funds, should introduce greater transparency and efficiency to that business, as well as greater competition.

Currently, only Japanese life insurers and a handful of Japanese and foreign trust banks may manage public pension funds. And while foreign investment-advisory firms (there are 17 at present) can get mandates for certain private pension-fund business, so far foreigners have less than 0.2% of that market, according to the American Chamber of Commerce in Japan.

Nobody has a clear idea how well present managers do because Japan has no formalized, effective means of performance evaluation. Moreover, Japanese accounting is based on book value, not market value.

"To use book-cost accounting is crazy," says Cliff Shaw, head of Warburg Asset Management Japan, "especially for long-term investment. What is relevant when you realize assets to pay pension obligations is what these assets are worth, not what you paid for them."

As long as the accounting is based on book value, pension-fund sponsors, for example, will be reluctant to take money away from existing managers and give it to new managers. That would mean realizing losses on many of the securities they hold. Thus, a tentative pledge to move to market-value accounting in 1996 will provide a clear picture of the fund's actual health, while making it less painful for sponsors to shift funds to new managers.

Foreigners are confident that they can do a better job managing money than present managers. The Japanese agree. "The government expects their performance will be better than that of existing companies. That is why they are admitting them," sighs Hiromi Yokoyama, deputy president of Barclays Trust & Banking Co. "We naturally expect the same."

Still, one of the largest of many question marks hanging over the agreement is how much improved performance counts in a world where sponsor-manager relationships have long mattered more than narrow considerations of return. Warburg's Shaw thinks performance is becoming more important.

"A few years ago, I ranked it about eighth in the criteria for how managers are judged," he says. "It's moving up now." ■ **Henny Sender**

VIEWPOINT

Commerzbank's focus on German and European economic issues 1/95

German economy in 1995: no signs of overheating

Western Germany's unexpectedly strong upswing in 1994 has raised fears that overheating associated with inflationary pressures and monetary tightening might follow later in 1995. But these fears are hardly supported by the facts. Low wage settlements and a significant further rise in the tax burden will keep a lid on domestic demand. An increase of 2½% in western Germany's real GDP, and 3% for Germany as a whole, will be almost in line with the potential output growth.

IS THE CURRENT upswing strong or weak? It is certainly strong compared with expectations at the start of 1994, when growth of under 1% was being forecast. Yet it is rather weak if potential output is used as the yardstick, given the sharp fall in capacity utilization.

THE DATA for GDP and manufacturing output also diverge. While GDP was almost 1% higher by end-1994 than it was early in 1992, before the downturn began, manufacturing output is still 5% lower. Such disparities have left not only the public but also the financial markets puzzled. They have prompted questions about the future course of monetary policy as well. What does 1995 hold in store?

THE KEY FEATURES of the recovery remain unchanged in the new year. The gap between private and government consumption on the one hand, and business investment and exports on the other, will widen. Indeed, by end-1995, private and government consumption, which together account for three-quarters of GDP, should be only a real 2½% higher than at the bottom of the recession in early 1993, but capital spending and exports will probably have risen by 11%. The demand of private households will be dampened by moderate pay increases, rather weak employment growth and substantially higher taxes and social-security contributions. Government consumption will be curbed by fiscal consolidation efforts.

Outlook for western Germany*

at constant prices; percentage change on year

	1994[1)]	1995
Private consumption	1.2	0.5 *(1.0)*
Government consumption	0.0	0.5 *(1.0)*
Machinery and equipment	– 3.0	6.0 *(6.5)*
Construction	3.5	2.0 *(5.0)*
Domestic demand	1.8	1.5 *(2.0)*
Exports	7.1	6.0 *(7.5)*
Imports	6.5	4.5 *(5.0)*
Gross Domestic Product	2.3	2.5 *(3.0)*
Consumer prices	3.0	2.5

**) figures in parentheses include western and eastern Germany; 1) January - September*

THE SHARP RISE in long-term interest rates will slow residential construction in 1995. By contrast, business investment will hardly be affected as profits will stage a strong recovery, albeit from a very low level. In the economies of Germany's major Western European trading partners, the upswing is gathering momentum and capital spending is rising – to the benefit of German exporters.

DEVELOPMENTS in three areas could change the outlook, though. For one thing, private households might once again save less in 1995. However, the savings ratio was already a good 2 percentage points lower in 1994 than in 1990 and 1 point lower than its 1985-1989 average.

MODERATE PAY SETTLEMENTS are vital for sustained growth. We expect hourly wage rates in the private sector to go up by 3% at most; this would be compatible with a marked upturn in business investment.

LAST BUT NOT LEAST, it is feared that the strong monetary expansion up to mid-1994 might fuel inflation in 1995, prompting the Bundesbank to raise its key lending rates. But the size of the monetary overhang cannot be reliably estimated due to the various factors involved – German unification, EMS crises, and the withholding tax. What is more, wage and fiscal restraint, as well as tougher international competition, should all prevent a resurgence of inflation in 1995.

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PROGRAM DIRECTOR

ASIA AND THE PACIFIC (based in London)

Salary: £25,220 - £29,782 p.a.

Amnesty International is a worldwide membership movement which plays a specific role in the international protection of human rights. Its activities focus on opposing grave violations of human rights, including political killings and disappearances:

- it seeks the immediate and unconditional release of all prisoners of conscience (those imprisoned because of their beliefs, colour, sex, religion, ethnic origin or language, who have not used or advocated violence);
- it advocates fair and prompt trials for all political prisoners and works on behalf of such prisoners detained without charge or trial;
- it opposes torture and the death penalty in all cases.

As part of its campaign to protect fundamental human rights, Amnesty International publishes reports and other documents, publicizing human rights violations all over the world. Amnesty International is concerned solely with the protection of human rights involved in each case, regardless of either the ideology of the government or the beliefs of the victims.

The International Secretariat (IS) of Amnesty International (AI) is currently undergoing a major reorganization to help AI meet the challenges it faces as a human rights movement in the 1990s. The aim of the reorganization is to integrate the campaigning, research and development functions, thus improving AI's capability to respond to crisis situations and to develop AI's relationship with the broader human rights community and other non-governmental organizations. This new post is one of sixteen Program Director posts which together with the five senior managers make up the management team.

The Program Director (Asia and the Pacific) will be responsible for directing AI's Regional Program in Asia and the Pacific, in order to facilitate effective action by the AI movement in relation to its human rights concerns and to provide the organization with political and strategic advice on regional matters within Asia and the pacific.

As a member of the collective management group of the IS you will play a significant role in formulation of policies and standards, and the development of the strategic and operational plans of the IS and AI and will identify and solve management issues.

This is an exciting opportunity for candidates with extensive experience and knowledge, including political and social overview of Asia and the Pacific to take AI's research and action and movement development programs forward in this region. Together with regional expertise, commitment to human rights and professional management skills are required.

Candidates must have a proactive approach to management, including management of change. Broad understanding of political and cultural sensitivities of Asia and the Pacific region, sound and impartial political judgement and an understanding of issues of concern to AI as they relate to Asia and the Pacific are essential. Also candidates must have an understanding of how governments work, experience of other international NGOs, including an understanding of membership development strategies within an international NGO; and knowledge of international human rights law and an understanding of campaign strategies within a membership organization. Personal integrity, commit-ment to fairness, justice and equal opportunities, sensitivity to the needs of different cultures and voluntary organizations are also needed. Excellent representational skills and good English are essential, other languages, particularly regional languages are highly desirable. Candidates must be willing to travel.

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Post 1:Ref.no. ASIA/94/2: Fluent English, Korean or Japanese essential. **Post 2:Ref.no. ASIA/94/3:** Fluent English essential, regional language an asset (Australia and Pacific). **Post 3: Ref.no. ASIA/94/5:** Fluent English essential, regional language an asset (The Philippines).

Please quote the relevant reference number.

Closing date: 17 February 1995

Candidates from the Asia and Pacific region are particularly welcome to apply for these posts.

Closing date: 17 February 1995

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For further information on the particular post you would like to apply for and an application form please contact:

The Human Resources Program, International Secretariat, 1, Easton Street, London WC1X 8DJ, United Kingdom. Tel: (071) 837 3805 (24 hour ansaphone) Fax: (071) 956 1157. Please quote the appropriate reference in all correspondence.

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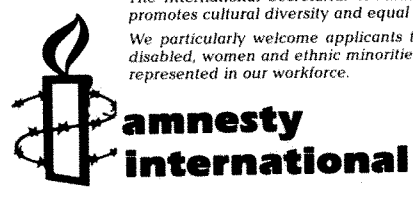
We particularly welcome applicants from the following groups: disabled, women and ethnic minorities. These groups are under-represented in our workforce.



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Salary: £25,220 - £29,782 per annum

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As a member of the collective management group of the IS you will play a significant role in formulation of policies and standards, and the development of the strategic and operational plans of the IS and AI and will identify and solve management issues. This is an exciting opportunity for candidates with extensive experience of development (economic, social, civil or political) outside Western Europe and North America, and with an in depth understanding of two cultures, commitment to promotion of human rights and professional managerial skills to take AI's development program forward.

Candidates must have a proactive approach to management, including management of change. Understanding of organization development, sound political judgement, personal integrity and a commitment to fairness and justice are essential. Sensitivity to the needs of different cultures and voluntary organizations, and a commitment to equal opportunities are also required. Excellent representational skills and good English are essential, other languages are highly desirable and must be developed. Candidates must be willing to travel.

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ARTHUR J. PAIS

PROFILE

Prema Mathai-Davis
United States

A Woman's Work

America's oldest women's group, the YWCA, taps an Indian-born leader

By Arthur J. Pais

Prema Mathai-Davis's family has been active YWCA supporters for nearly as long as the 135-year-old Young Women's Christian Association has been in existence.

Her great-grandmother, Rachel Verghese, helped start two YWCA branches in India at the turn of the century. Her grandmother, several aunts and her mother, Susy Mathai, have been YWCA leaders in India and Pakistan for many decades. So it was natural that the United States' group tapped Mathai-Davis as its national executive director in 1994.

Mathai-Davis, the first Asian and foreign-born head of this oldest and largest women's organization in the U.S., says she never expected to land a full-time job with the group. "But I guess I was moving in that direction all along," she says, "for I have been teaching and working with women for many years."

Apart from the family's bonds to the YWCA, 43-year-old Mathai-Davis is well-qualified for her new post. She holds a doctoral degree in human development from Harvard University, and a pair of degrees in child development from Delhi University. Born in Tiruvalla in India's Kerala state, she has lived the last 27 years in the U.S., where she has developed an impressive curriculum vitae. Two stints in particular stand out: She acted as a director of New York City's Metropolitan Transportation Authority — the world's largest urban transit system — and she recently completed a four-year term as commissioner of New York City's Department for Ageing. There, she had a staff of 400 and an annual budget of $150 million.

The first Asian to hold a cabinet position in New York City, Mathai-Davis established one of America's first public minority programmes designed to promote cultural diversity. Three years ago, she organized the first annual United Senior Action Day in Washington. More than 12,000 elderly Americans from 20 cities participated, to demand better rights and facilities. David Dinkins, then mayor of New York, praised Mathai-Davis. She made the U.S. her true home, he said, and had also brought a new dynamism to public service.

Mathai-Davis credits her Indian Christian heritage for equipping her for leadership in international organizations. Christians constitute less than 2% of India's 850 million people, yet they run some of India's best schools, colleges and hospitals. "I realized very early in my youth that minorities could play an important role in any country if they had self-confidence and a desire to serve," she says in a husky voice, a curious mix of Indian and New York accents. Her interest in public service led her to teach in an Indian college for several years. And that experience opened the door to a number of community-oriented jobs in the U.S., particularly working with the elderly.

> **"I realized very early in my youth that minorities could play an important role in any country"**

Her parents share Mathai-Davis's home with her banker husband and three children. "Having grown up in a three-generation household and maintaining one now," she says, "I am especially sensitive to the enormous similarities between issues faced by the elderly and those faced by all girls and women."

In her new role, she has vowed to make the YWCA more visible, and to endow it with a new militancy. "In India and the neighbouring countries, we always thought of YWCA as a place for women to fight racism, casteism and prejudice," she says. In the U.S., she adds, that perception has been lost. "To many people, YWCA is a chain of inexpensive swimming pools, run by white-gloved ladies."

You won't find Mathai-Davis in white gloves, though. Heavy-set, she moves with the speed of someone practising for the New York marathon. Her swimming eyes and restless hands underline the urgency in her voice when she speaks of problems facing women. She says workplace inequities, homelessness and inadequate health facilities are as worrisome for women today as they were when the YWCA was founded in England during the Industrial Revolution. (The Young Women's Christian Association, whose leaders are content to call it the YWCA, is often simply "The Y.")

As America moves into the 21st century, the YWCA and other advocacy groups will help to empower women. Says Mathai-Davis: "Women should play an even more important role in defining the next century." The YWCA's literature, meetings and self-help groups aim to enlighten its 2.1 million members. And it encourages them to get involved in civic campaigns.

YWCA leaders are excited about their new executive director. She is committed to community programmes that are tailored to the needs of a nation that is becoming increasingly multicultural, says Ann Stallard, the organization's national president. She sees Mathai-Davis as "a natural choice to lead us."

On the home front, Mathai-Davis expects the YWCA "genes" will continue to multiply in her family. After all, she says with a smile, her children and husband are her best morale-boosters. ■

Arthur J. Pais is a writer living in New York.

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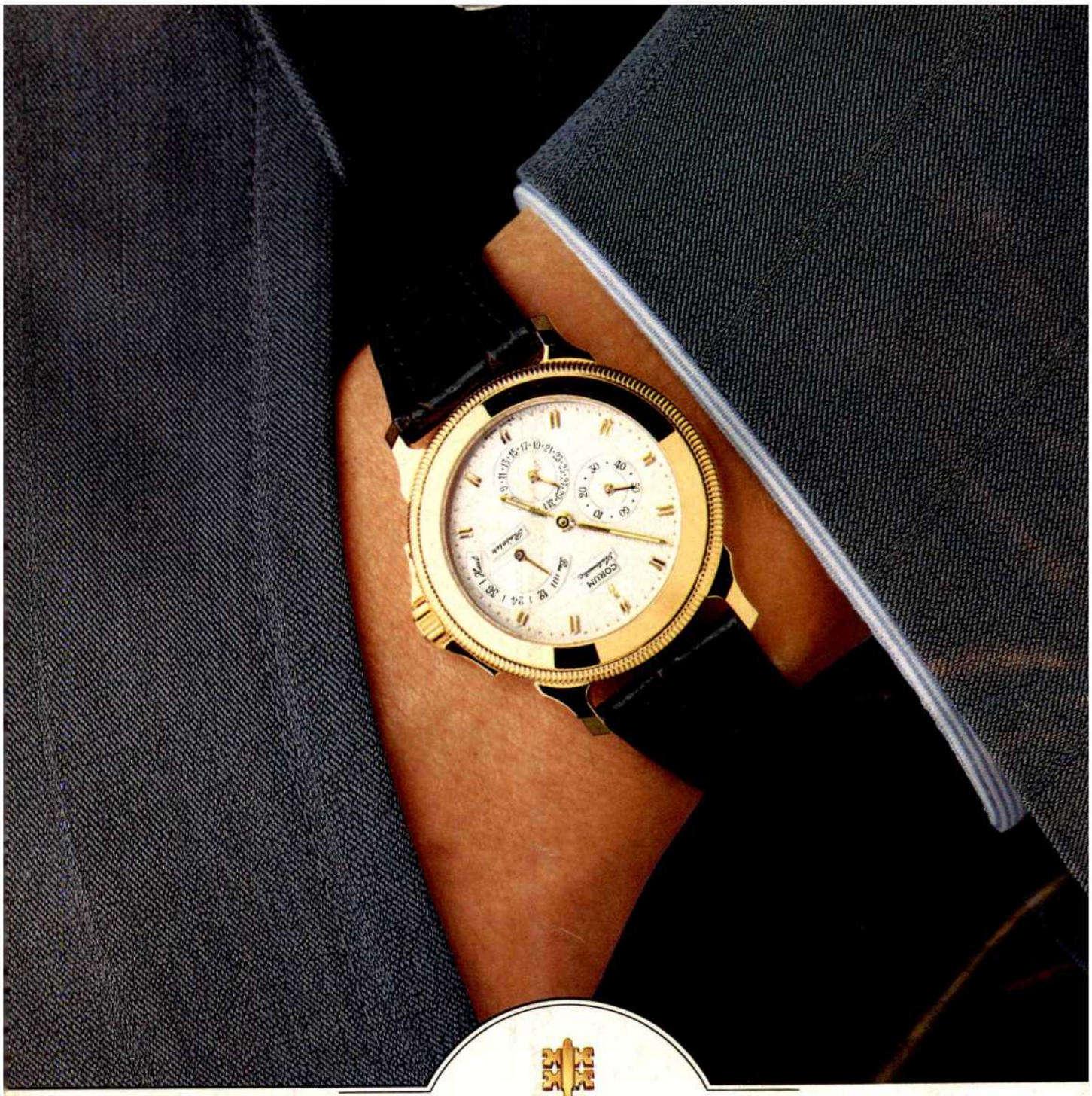

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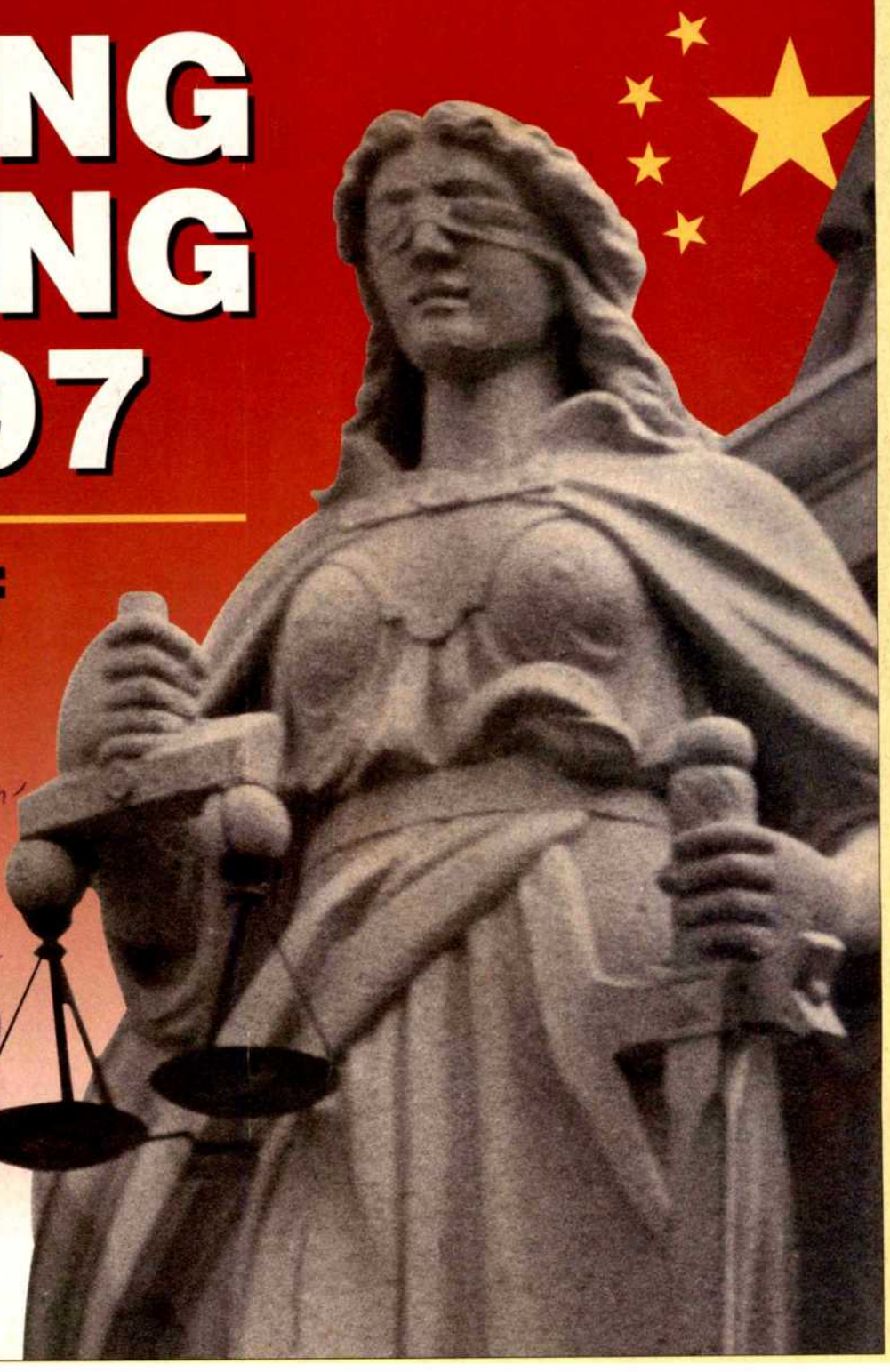
The Bears Growl

HONG KONG 1997

Rule of Law at Risk



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LETTERS

All letters must include the writer's name and address and are subject to editing. Letters may be mailed to the Review, GPO Box 160, Hong Kong, or faxed to (852) 2503 1530.

Rights and Wrongs

With regard to your December 22, 1994 article **Right Behind You**, the Just World Trust did not ban the human-rights group Suaram from distributing pamphlets at our conference. Suaram was given all the freedom in the world to distribute its pamphlets criticizing our conference — even though it had neither the decency nor the courtesy to observe a simple rule followed in most conferences in our part of the world: obtaining the permission of the host before making available any literature to the participants.

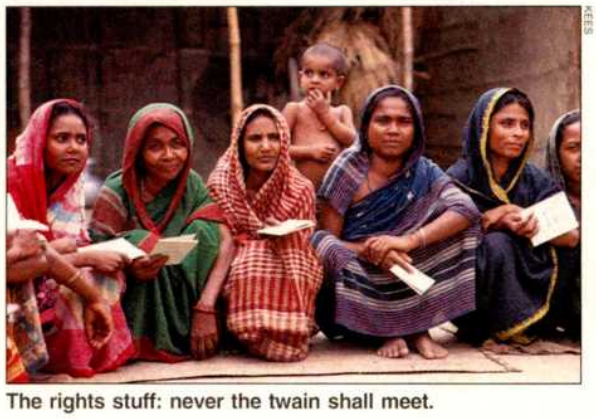
In spite of Suaram's attack, which began two months before the conference, Just not only invited it to attend, but also waived the registration fee for one of its two participants. At the conference, Suaram was allowed to express its views without hindrance.

Just did not dub its meeting the world's "most important" human-rights conference. Our conference was the "first human-rights conference of its kind to be held anywhere in the world," since it sought to: evaluate the adverse impact of Western global domination upon the human rights of five-sixths of the world's people; examine the concept and practice of human rights within Western society itself; and espouse an alternative vision of human dignity founded on universal spiritual and moral values embodied in the great religions of the world.

What united human-rights thinkers and activists from the West and East was the realization that the dominant centres of power in the West have, for far too long, set the human-rights agenda for the world, often motivated by their own selfish interests and their own narrow world view. Because the conference had the audacity to question the West's monopoly over human rights, certain Western human-rights organizations, sections of the Western media and a few insignificant groups in Malaysia have decided to denigrate Just.

This is the real reason why fringe elements in Malaysian society appear to be upset that Prime Minister Datuk Seri Mahathir Mohamad was invited to officiate at the Just conference. I had made it clear from the outset that inasmuch as the focus of the conference was Western global domination and its consequences for human rights, the prime minister was eminently qualified to deliver the keynote address. The majority of participants who had a mature understanding of the character of the existing global system were pleased with our choice.

These participants knew that various curbs and limitations notwithstanding, the human-rights situation in Malaysia taken as a whole (i.e., civil, political, economic, social and cultural rights considered in their totality) is a great deal better than in many other countries. In this regard, it is despicable that your correspondent should try to give the impression that I am no longer critical of human-rights shortcomings in Malaysia by trotting out a quotation from a 1986 book of mine.



KEES

The rights stuff: never the twain shall meet.

Surely he is aware that as recently as November 8, 1994, I had stated publicly in Malaysia's leading English-language daily, the *New Straits Times*, that I remain convinced that detention without trial is wrong. It is true that I have been concentrating more upon global issues than Malaysian affairs in the last few years. For it is the global system — and not the nation-state, whose sovereign power is declining rapidly — which will determine the fate of humankind in the 21st century.

CHANDRA MUZAFFAR
Director
Just World Trust
Penang

Return to Normalcy

Ahmed Rashid's despatch on Karachi [**Riches to Rubble**, Jan. 12] does not correspond to the present realities. He has completely ignored Prime Minister Benazir Bhutto's actions to restore normalcy.

Yes, Karachi had a problem, which was mainly the handiwork of foreign-trained saboteurs. But that is now a story of the past. As a result of Prime Minister Bhutto's actions — including a $4 billion economic package for improving the civic facilities in this port city, her dialogue with the Muhajir Qaumi Movement, and the closure of the Indian Consulate at Karachi (which was the hotbed of the anti-state activities) — the situation in this megalopolis has drastically improved. Peace and tranquillity have returned and violence has almost vanished. Rashid should have spoken of the present, not the past. The past is history; the present is news.

S.M. IMRAN GARDEZI
Vice-Consul for Information,
Consulate-General
of the Islamic Republic of Pakistan
Hong Kong

Manchester United

The year cannot end without some comment on your cover story **20 Years of Asian Growth** [Nov. 24, '94]. This package portrays the last 20 years as a never-ending success story and elevates growth as something to be worshipped by us all. What you do not take into consideration is the price that millions of Asian workers are paying for this growth.

Nobody will deny due admiration to the brilliant individual success stories that you present. Where this success is the result of self-exploitation no one can object, but most of Asia's success stories are possible only because of the shameless and ruthless exploitation of the labour force. Manchester Capitalism is nothing to be proud of. Luckily we have overcome it in Europe, and I consider social and medical security programmes for workers a matter of pride — worth killing and dying for.

BARBARA DIEHL-ELI
Tuebingen
Germany

A Rose by Any Other Name

All the articles concerning Myanmar in your magazine still use the name Burma. The Union of Myanmar has been accepted around the world for years. I regret that you, a leading newsweekly, ignore the will of all Myanmar nationals.

ANG PENG CHEOH
Singapore

Postal Information

Australia: Print Post Number PP 349181/00080. **U.K.:** Registered as a newspaper at the General Post Office. **U.S.A.:** The *Far Eastern Economic Review* (USPS 914-880) is published weekly, every Thursday, for $185.00 per year by Review Publishing Company Limited. U.S. Mailing Agent — YellowStone International Corp., 87 Burlews Court, Hackensack, NJ 07601, Toll Free Tel: 1-800-451-3410. Second-class postage paid at Hackensack NJ and additional mailing offices. **U.S. POSTMASTER:** send all address changes to Far Eastern Economic Review c/o YellowStone International Corp., 2375 Pratt Blvd., Elk Grove Village, IL 60007-5937.

Currency Note

All currency references in the REVIEW are to U.S. dollars unless otherwise indicated.

Far Eastern Economic REVIEW
EDITORIAL

Trading Places

Time to lower Asia's internal barriers to growth

Today Asia finds itself caught in something of a contradiction. On the one hand, its record of development over the past three decades has made Asia a synonym for economic growth, and it is no coincidence that the top slot in the new Index of Freedom compiled by the Washington-based Heritage Foundation is taken by two of the region's star performers, Hong Kong and Singapore (*see The 5th Column, page 30*). On the other hand, within Asia itself trading relations are as fractious as anywhere: witness the recent complaint filed by Singapore against Malaysia with the newly formed World Trade Organization in Geneva, the group's first such complaint.

Singapore maintains that a permit scheme imposed by Malaysia last April violates trade rules and has led to a 44% drop in sales of polypropylene and polyethylene (basic feedstock for many petrochemical and plastic products). Malaysia says that the scheme is only temporary, necessary until it is able to build up its own industry. Now we don't profess to know precisely what is and what is not allowed. But we would suggest that the Singaporeans are not the only ones who have found it hard to trade within Asia.

Indeed, local restrictions often make it easier for an Asian company to trade with one in Europe or the United States than one next door. Whether you are a Filipino trying to sell fruit to Japan or a Japanese trying to sell Toyotas in South Korea, horror stories abound. A friend of ours, for example, paid $120 in duties and fees on a $400 Japanese microfiche machine he imported into Indonesia. When Haagen Dazs in Thailand needed more icecream, it had to bring it in from its U.S. plant instead of from Japan because of differences in duties. And if you are an Asian shipper hoping to transport goods within the region from Korean ports, you can just forget it.

Of course, Asia has its strengths, too. As the Heritage Foundation study illustrates, the region boasts a disproportionate share of the world's freest economies. In sharp contrast to the expensive welfare states that have sapped Europe's vibrancy and seen its relative standard of living on a steady decline, Asia has opted to allow its people increasing freedom to pursue their economic interests and provide for themselves. Even the inefficiencies due to restrictions on intra-Asian trade have been somewhat offset by the discipline of the international trading order.

Asia has done well by this arrangement. But it is important to remember that it has done well by staying ahead, and in a post-Uruguay economy that will mean eliminating the kind of internal discrimination that prevents Asia from capitalizing on the strengths it offers as a region. In a world that has already moved rapidly towards specialization, an Asia competing for international capital would do well to offer investors the chance to take advantage of regional efficiencies. It is not hard to conceive of a company locating its manufacturing plant in China, its design division in the Philippines, its assembly facility in Malaysia and its headquarters in Hong Kong. At their recent meeting in Bogor, Apec leaders embraced this larger vision and even set a date: 2020. But it's not too soon to start making this a reality. ■

Party Time

New Zealand strikes again

Don't tell Roger Douglas about currency crises. The Mexican peso may be in the headlines these days, but 10 years ago it was the New Zealand dollar. Even before the polls closed in the July 1984 elections that brought the Labour Party to power and saw Mr. Douglas installed as finance minister, a run on the dollar had forced the central bank to halt all foreign-exchange transactions. Instead of the usual stop-gap measures, however, Mr. Douglas used the crisis to launch a reform programme that over the ensuing decade would turn New Zealand from one of the world's most protectionist nations to one of its most open. So transparent is New Zealand's economy today that the governor of the central bank must sign a contract with the Finance Minister to keep inflation below a set target, today 2%.

Mr. Douglas understood that he could not deal with New Zealand's currency crisis without a fundamental reform of the economy, which he then did with a vengeance. During his tenure taxes were slashed, financial services deregulated, exchange controls dropped, import licences cut and state enterprises put on the block. In 1990 New Zealanders gave Labour the boot, but the new National Party Government only pushed reform further.

Still, Mr. Douglas remains far from complacent. Indeed, along with Derek Quigley — a former National Party minister whose credentials include opposing the disastrous "Think Big" projects of Prime Minister Robert Muldoon — the former Labour minister has just launched a new party. Called ACT New Zealand, it is a spin-off from the Association of Consumers & Taxpayers and was registered this past November.

"Politicians have essentially been making promises with other people's money," Mr. Douglas tells us, borrowing against tomorrow to pay for today. In today's increasingly integrated world economy, however, this wiggle room is fast disappearing. Countries will have to keep themselves lean and competitive if they hope to succeed. And we suspect that we have not heard the last from straight-talking Mr. Douglas — or New Zealand. ■

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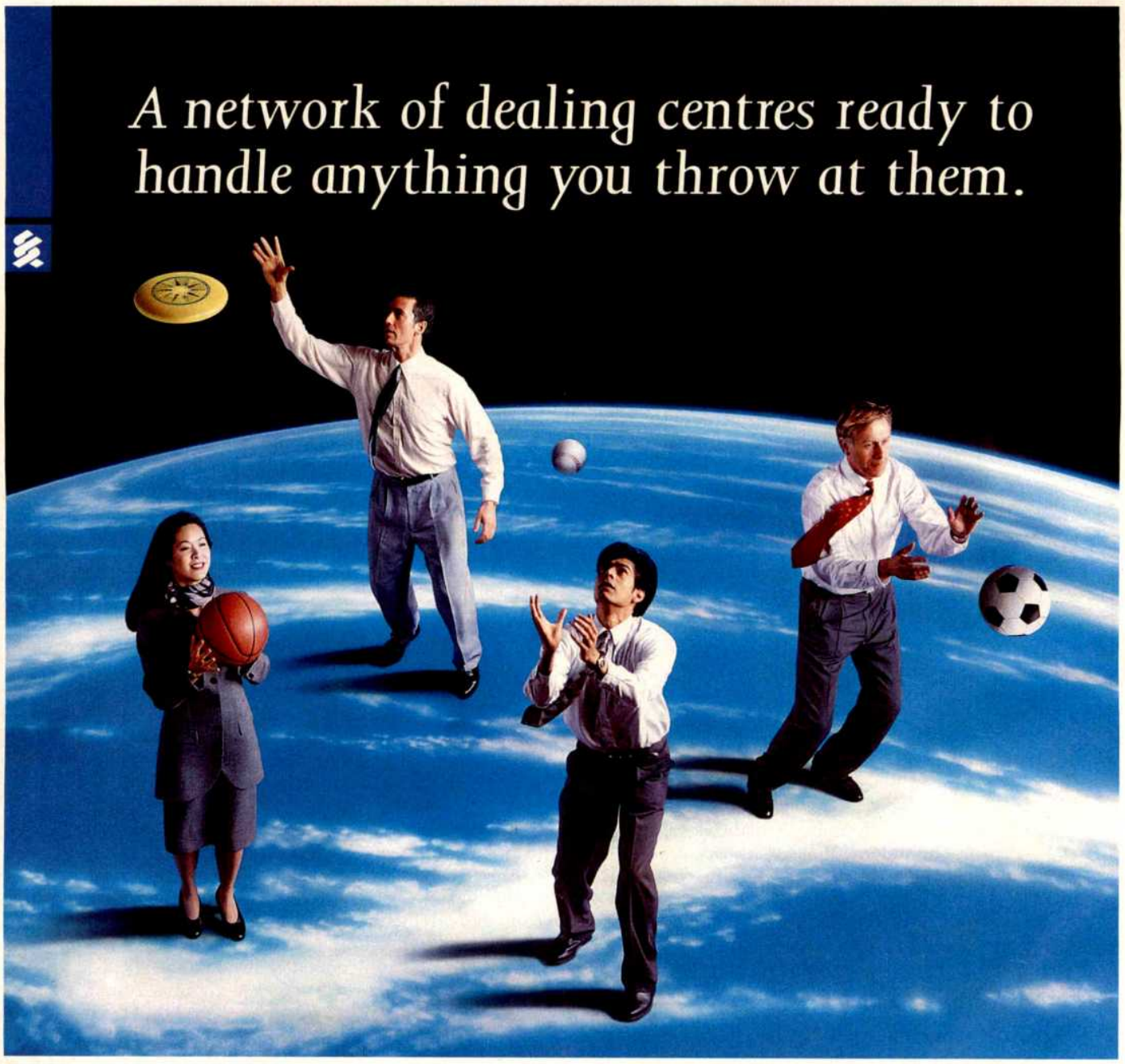

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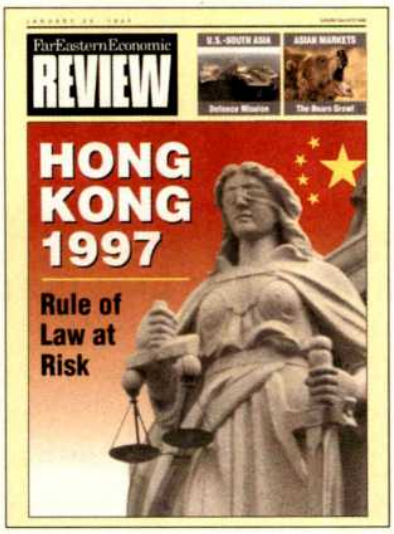

COVER STORY

The rule of law is a pillar of Hong Kong's prosperity, but can it withstand the shock of Chinese rule? Louise do Rosario finds ominous signs that individual rights, judicial independence and public order will be at risk after 1997. She also examines the situation in China, where foreign businessmen have been arbitrarily detained over commercial disputes. And she introduces a father and daughter who personify the widening split in Hong Kong's legal profession over democracy and human rights. Page 18.

Cover photo by South China Morning Post

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For further information, please contact: Mark Ellsmore, TI Asia Pacific, 21 Loyang Crescent, Singapore 1750, Tampines South Post Office, PO Box 339, Singapore 9152. Tel: (65) 222 9161. Fax: (65) 223 5035.

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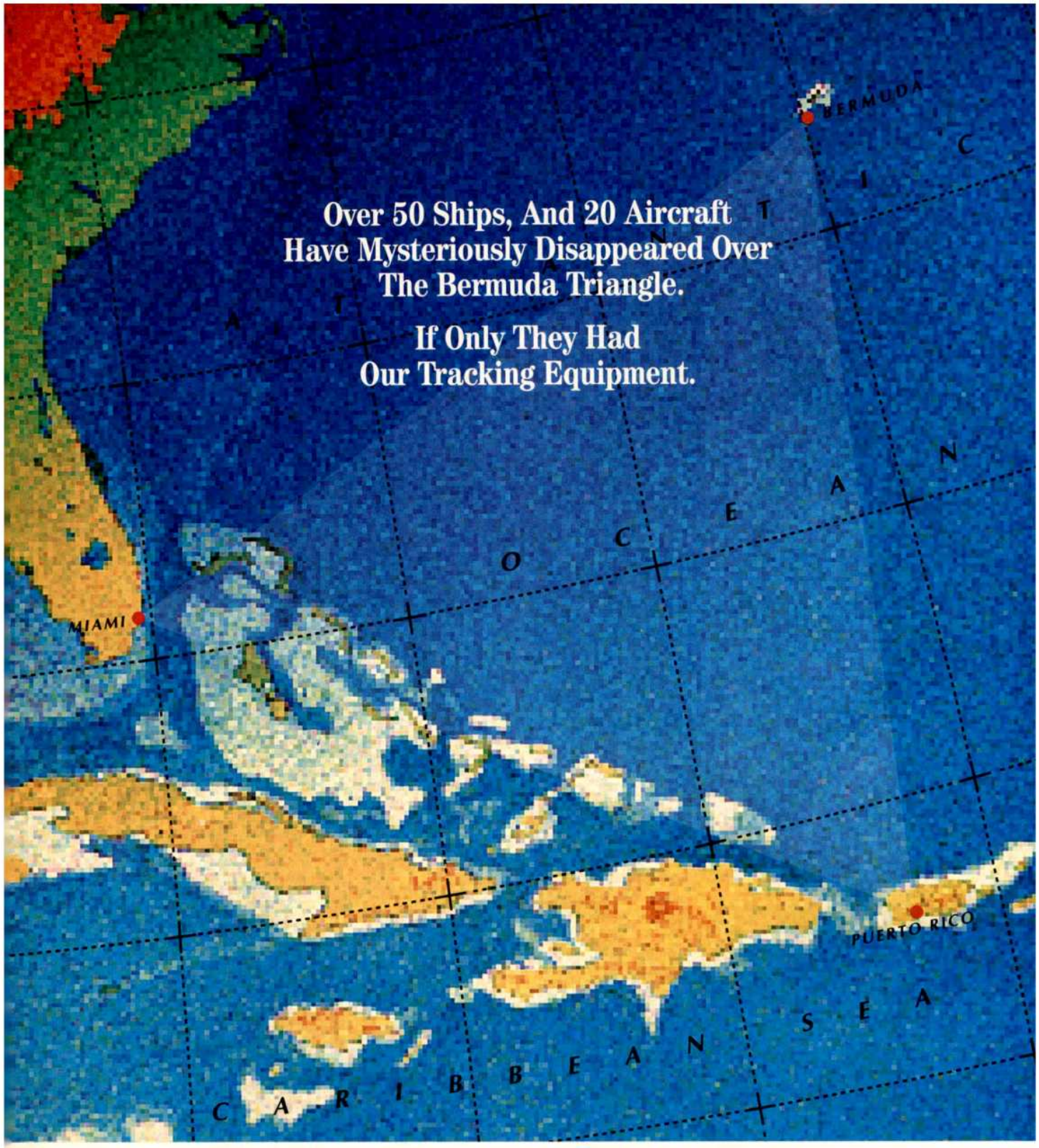

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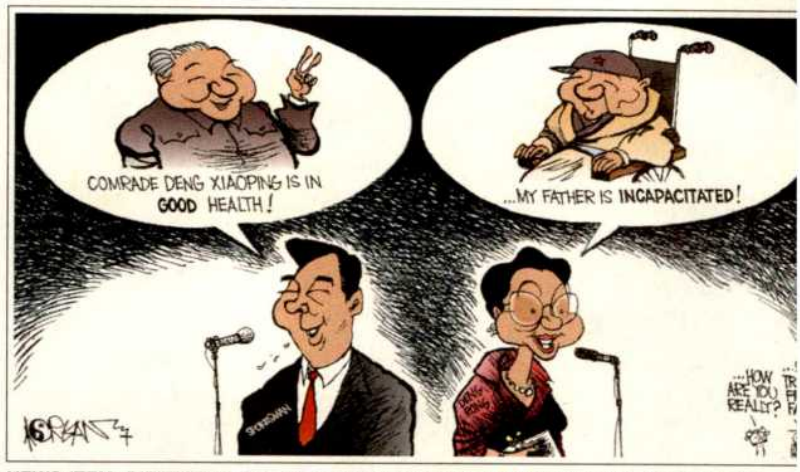
In Other Words

"I guess they have a different concept of contracts."

Jim Marret, general manager of Sing Tao, after China cancelled a deal allowing the company to publish a special edition of its English-language newspaper, the *Hongkong Standard*, from Beijing.

"Earlier we weren't even giving napkins. Now we have tablecloths."

Indian Airlines executive P.J. Crasta, noting the effect of increased competition on the national carrier's services.



NEWS ITEM: DIFFERENT REPORTS ABOUT DENG'S HEALTH CREATE CONFUSION.

"Money is fluttering in the wind. We have no ideals."

Words from the title song of Chinese rock star Cui Jian's new album, *Eggs Under the Red Flag*.

"My generation washed away the shame of losing our country's independence, and now it's your turn to wash away the shame of a poor and backward country."

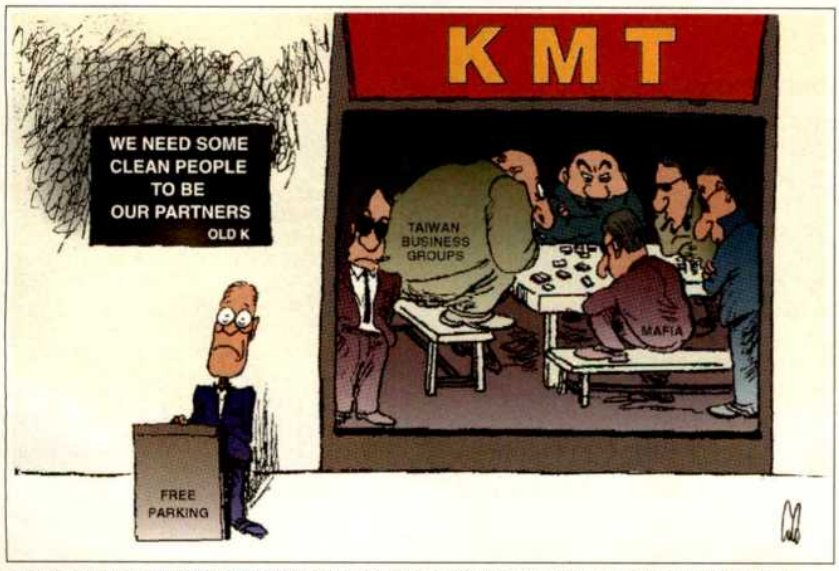
Gen. Vo Nguyen Giap, now 82, the first commander of the People's Army of Vietnam, challenging the country's younger generation during the army's 50th-anniversary celebrations.

"Excessive price falls may spur consumer to purchase low-priced but unnecessary products."

Hiroko Mizuhara, director-general of the Consumers Un of Japan, explaining why the group doesn't necessaril welcome the recent trend towards lower prices.

"I've always resented what was done to Taiwan."

U.S. Sen. Jesse Helms, new chairman of the powerfu Senate Foreign Relations Committee, on his decisior to receive Taiwan's representative to Washington before any other ambassador.



NEWS ITEM: TAIWAN'S UNDERWORLD IS INCREASINGLY LINKED TO ITS POLITICIANS.

CoCo/The Journalist

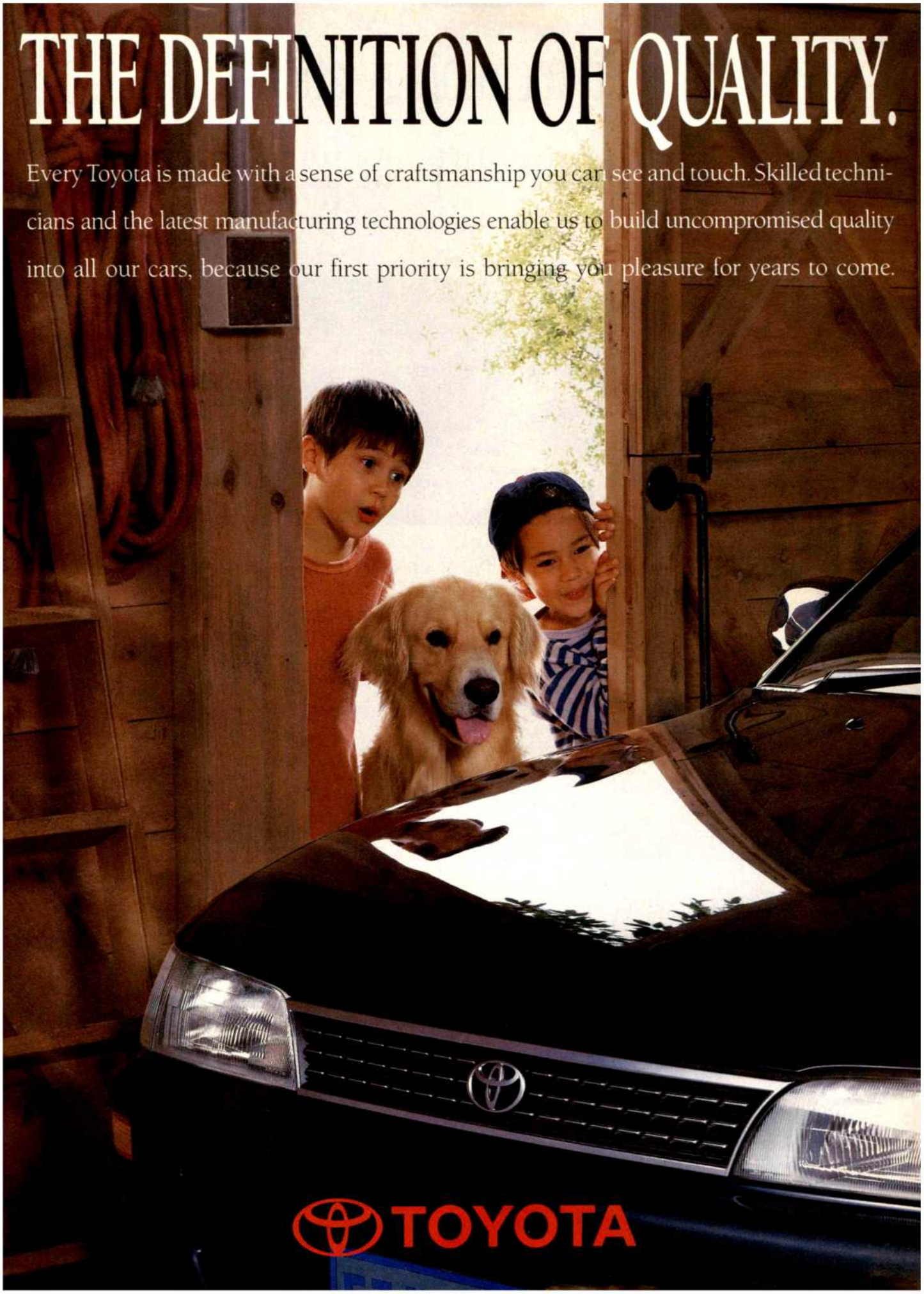
"You have to have white knuckles to buy right now.

John Quinn, chief investment office at NatWest Investment Management A in Hong Kong, on fears of a Mexican-style currency crash.

"It doesn't matter whether you want it or not, whether you like it or not, or whether you are prepare for it or not: We have to enter the international free-trade system."

Indonesia's President Suharto, on th 2020 deadline for regional free trade by the Asia-Pacific Economic Cooperation forum.

Please share quotes you see: REVIEW, GPO Box 160, Hong Kong, or fax (852) 2503 1530.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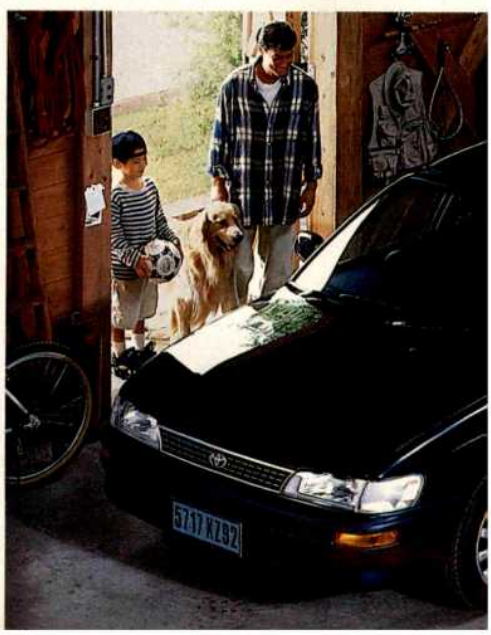
quality before any car passes from our h

THE PRIDE OF CRAFTSMEN. With expert eyes and refined sensitivity, Toyota technicians carefully examine the parts produced by our highly automated manufacture. Even a mere 3 microns (0.003 mm) unevenness in an

exterior body panel is noticed by our master technicians, who pursue perfection and reliability at every stage of producing Toyota quality cars.

THE ROLE OF TECHNOLOGY. Of course, Toyota's philosophy of building in quality is also designed into our advanced car production technology itself. For example,



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during the body assembly process, which involves some 200 critical pieces, if by chance a part should be improperly placed due to human error. A sensor system built into the assembly machinery immediately stops the line and alerts our technicians, so that the problem is corrected before the part moves on to the next process.

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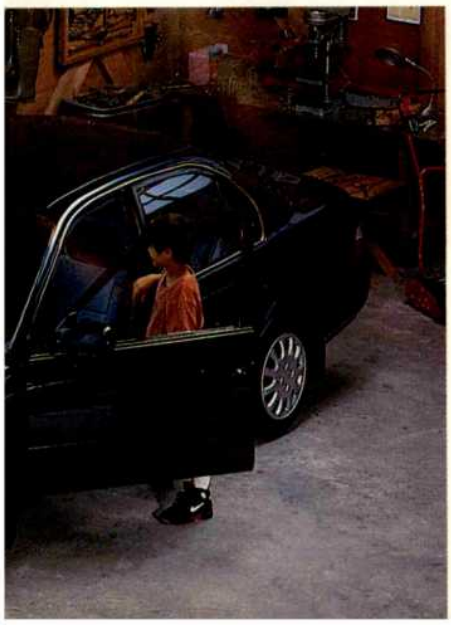

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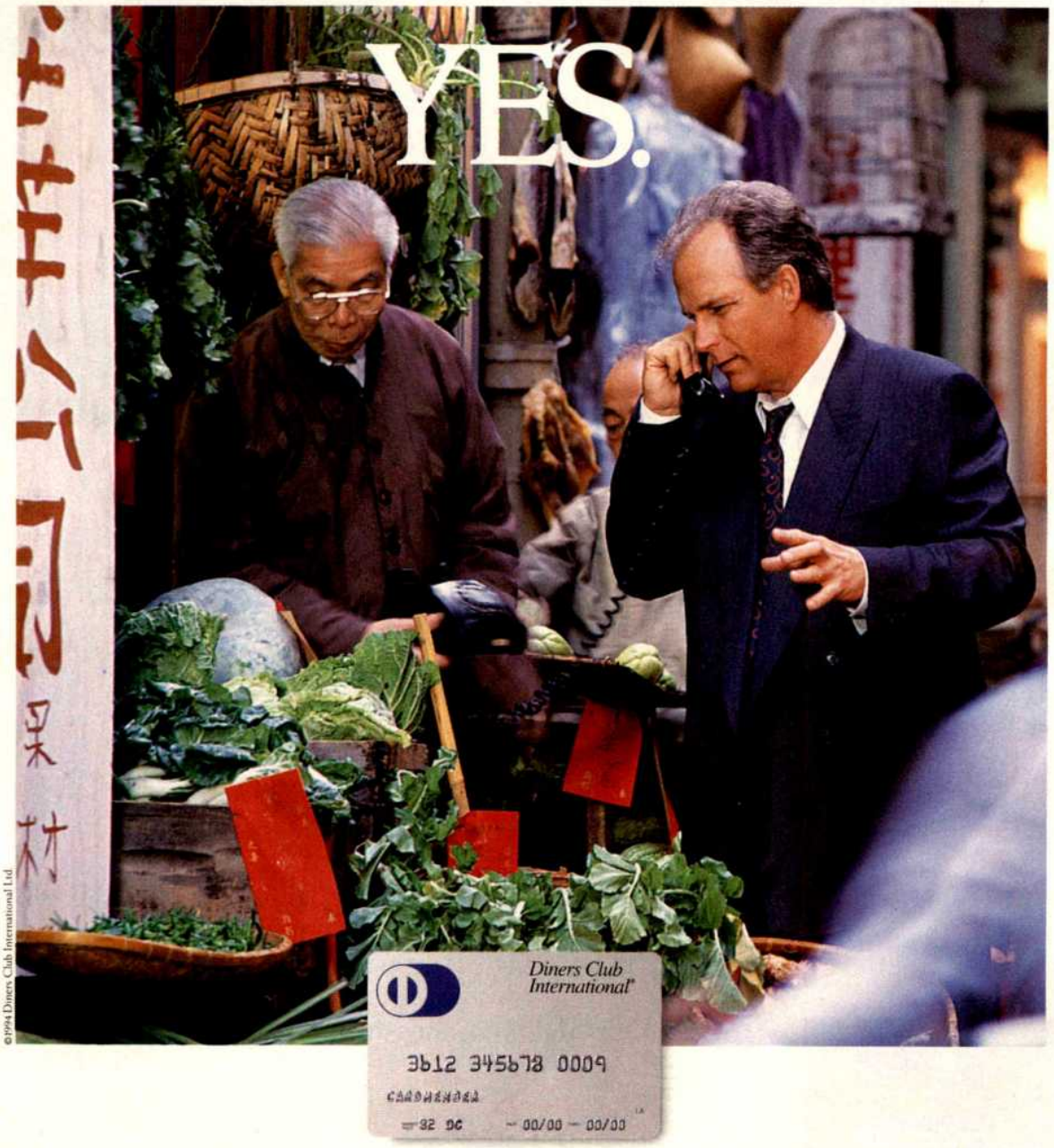

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REGIONAL BRIEFING

CHINA

Doddering Deng

Deng Xiaoping's daughter made an unprecedented admission of his frailty. Deng Rong said the paramount leader's health was steadily deteriorating and he was unable to stand or walk. But she denied recent reports that he had gone into hospital.

Gesture to U.S.

President Jiang Zemin said China and the United States had made "important and positive progress" in their relations over the past year. But Jiang, meeting former U.S. Secretary of State Henry Kissinger in Beijing, complained about American tampering with "matters relating to China's sovereignty, most notably on the issues of Taiwan and Tibet." Top U.S. human-rights envoy John Shattuck, also in Beijing, meanwhile said China's human-rights situation hadn't improved over the past year.

JAPAN

Devastating Quake

A massive earthquake pounded central Japan on January 17, killing more than 2,000 people and injuring 6,000 others. The country's worst quake since 1948, it destroyed buildings, roads and rail lines and sparked raging fires. Some of the worst damage occurred in the port city of Kobe. Osaka and the imperial capital, Kyoto, were also badly rattled.

Premier's Promise

Japan will "play a significant financial role" in implementing the $4 billion deal to build two light-water nuclear reactors in North Korea, Prime Minister Tomiichi Murayama told American President Bill Clinton at a January 11 summit in Washington.

CHINA NEWS SERVICE

Ailing Deng photographed in Beijing in October 1994.

TAIWAN

Price of Justice

A state prosecutor who was shot 11 times at his home in Kaohsiung said the attack was part of the price that must be paid to bring justice to society. Chang Chin-tu spoke to reporters from his hospital bed, where he is recovering from wounds to his hands and legs. He has a reputation for aggressively pursuing cases of drug smuggling, bribery and other criminal acts by local gangs. Police arrested two suspects in the shooting, but the alleged mastermind reportedly escaped to China.

INDIA

Group Banned

Citing the threat of "communal disharmony," the government reimposed a two-year ban on the Vishwa Hindu Parishad (World Hindu Council), a Hindu revivalist organization allied to the opposition Bharatiya Janata Party. The VHP was outlawed after many of its members took part in the demolition of the disputed Ayodhya mosque in December 1992.

SINGAPORE

Guilty Verdict

The High Court imposed stiff fines on an American academic and executives of the *International Herald Tribune* newspaper after finding them guilty of contempt-of-court in a published article. Judge Goh Joon Seng said there was "no doubt" that Christopher Lingle was referring to Singapore when he accused unidentified Asian regimes of using "a compliant judiciary" to bankrupt opposition politicians.

REVIEW GRAPHIC/SIMON WONG PHOTO: GERHARD JORDEN

MALAYSIA

New Army Chief

Army Commander Gen. Datuk Ismail Omar, 53, was appointed chief of the armed forces, succeeding Gen. Tan Sri Borhan Ahmad, who retires on February 2. Lieut.-Gen. Datuk Che Mohamed Noor Mat Arshad, 51, will replace Ismail as army commander.

CAMBODIA

Tourist Slain

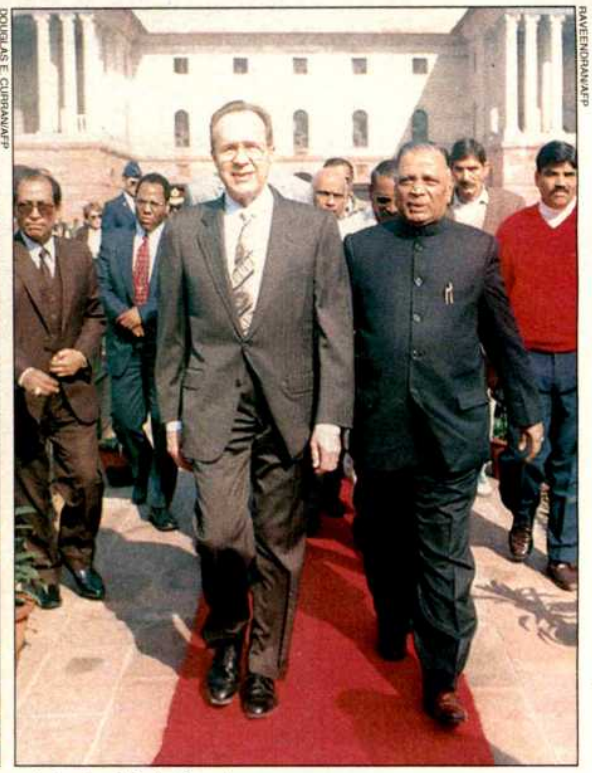
A 50-year-old American woman and her Khmer guide were killed when attackers fired grenades and automatic weapons at a tourist convoy near Angkor Wat. The government denied Khmer Rouge guerillas were responsible, saying robbery was the motive. It banned visits to the Bantey Serey temple, but said the main Angkor complex was still safe.

PAPUA NEW GUINEA

Papal Security Scare

Security fears surrounding the Pope's Asian tour rose when a Filipino armed with a semi-automatic pistol was arrested as he tried to enter a stadium in Port Moresby where the pontiff was about to celebrate Mass. PNG police were also seeking two Iranian men in connection with an assassination plot uncovered a week earlier in Manila. Airlines across Asia tightened security for trans-Pacific flights following intelligence warnings that Muslim extremists might try to sabotage an aircraft during the Pope's tour.

DOUGLAS E. CURRAN/AFP



RAVEENDRAN/AFP

Improving relationship: Anti-U.S. rally in New Delhi in 1994; Perry breaks new ground during his Indian tour.

SOUTH ASIA

Perry's Progress

The U.S. defence secretary gets friendly with Pakistan, offers India joint training, and doesn't press hard on the Nuclear Non-Proliferation treaty.

By Hamish McDonald in New Delhi and Ahmed Rashid in Islamabad

Mounted lancers at the gate, lines of turbaned troops from elite regiments, three brass bands serenading from the rooftops of neighbouring bungalows: Nobody can deny that the Indian army puts on a good bash when it wants to celebrate. And at this year's Army Day party, held on the back lawn of Chief of Staff Gen. Shankar Roychowdhury, celebrate it did.

But it was more than the usual cakes and chit-chat. The talk among Indian officers and foreign military attaches was about American Defence Secretary William Perry and his path-breaking visit to Pakistan and India.

Perry had left New Delhi a day earlier, on January 14. In the tea queue at the party, a senior general pondered the visit's significance: With the end of the Cold War, Washington was no longer looking for allies it could dominate or control, but military friends it could work with. "Do you think, perhaps, this is what the Americans see in us?" he mused.

They may indeed. Perry's visit to New Delhi has opened the way for the United States and India to upgrade their military relations to a level unmatched during the Cold War. In Pakistan, meanwhile, Perry's pronouncements suggested that this onetime strategic ally of the U.S. is back in favour.

The Perry tour didn't produce any arms deals or solutions to long-running disputes about nuclear weapons, ballistic missiles or Kashmir. But by marking a kind of American re-engagement in South Asia and conducting some shuttle diplomacy on the region's bilateral sore points, Perry lifted Pakistan and India's sights, at least momentarily, above their half-century feud.

The Pakistanis were happy that Perry's visit to Islamabad restored some warmth to their ties with the U.S. There had been a chill since 1990, when Washington restricted arms sales to Pakistan because the president was unable to certify, as required by the Pressler Amendment, that Pakistan didn't have a nuclear-weapons programme.

Criticizing the U.S. Congress, Perry said in an Islamabad interview that U.S.-Pakistan relations "suffered a serious setback in 1990 with the passing of the Pressler Amendment." He called Pakistan "the key to peace and stability" in a region that's torn by conflicts in Afghanistan, Tajikistan and Russia, and "a model of moderation to the Islamic world." A senior American diplomat involved in the visit said: "We were interested in hearing from Pakistan their assessment of the regional situation, especially the instability in what Russia calls the Near Abroad [areas bordering Russia]."

What Perry didn't talk about was just as important to the Pakistanis: In a break from previous American statements, he did not press Islamabad to sign the

Nuclear Non-Proliferation Treaty without waiting for India to do the same. As a Foreign Ministry official put it: "The pressure is off Pakistan. We have come a long way."

But it was with the Indians, former cohorts of the Soviet Union, that the U.S. was breaking new ground. As an American official said: "Nothing much has happened between us and the Indians since 1947," when British India was partitioned.

During his visit to New Delhi, Perry said Washington sees India like China or Russia — as a "great power" with whom it needs to build up relations. He and Indian officials elevated their country's defence relations by signing an agreement on policy discussions, intelligence exchanges, joint military training and exercises, and defence production and research.

During the visit, the Indians opened up their military to a degree rarely seen by their allies, let alone the Americans. Perry was taken to a desert air base near Jodhpur, where he saw exercises by India's mostly Soviet-made air force. India's three service chiefs also briefed Perry on their assessment of threats to India.

The U.S.-India agreement adds structure to a relationship that has been growing informally since the 1990 Gulf War, when New Delhi lent American troops logistical help and let U.S. pilots refuel on Indian territory. Civilian officials from the two defence departments will in future hold regular meetings to discuss their strategic outlook. The countries' armed forces will also exchange personnel and hold "joint exercises of progressively higher levels of scale and sophistication," the agreement says. In addition, Indian and American scientists and engineers will form a joint technical group.

That doesn't mean Indians will be driving, flying or sailing in American equipment any time soon. "I did not come here to promote arms sales or technology transfers," Perry said. In Islamabad, moreover, Foreign Ministry officials urged Perry not to sell weapons to India while Pakistan is restricted by the Pressler Amendment.

However, it's likely that the Indians will now find it easier to get American-made avionics systems, guidance mechanisms and the like. The U.S. is already helping India develop its Light Combat Aircraft, and a prototype is expected to fly next year. The aircraft already has a General Electric engine and a Martin Marietta control system; thanks to the defence agreement, the Indians now expect more U.S. inputs. "Whenever we're stuck, the Americans will help us out," a senior air-force officer says.

American officials who accompanied Perry in New Delhi stressed that America's defence relationship with India is "not directed at anybody," and that it won't develop at the cost of Pakistan. To that end, Perry chose his words with care in public statements. "He's aware that several audiences are listening — the Indians, the Chinese, the Pakistanis, the Republicans in Congress, *The New York Times*," a senior American official commented.

In New Delhi, Perry said India and Pakistan, both of which have sophisticated missile programmes, should "avoid taking any action that could be construed by the other as an escalation." Earlier, in Pakistan, he had told reporters that India's deployment of its Prithvi missile, which has a range of 250 kilometres, "would be an escalation." He also said he had warned Islamabad not to deploy its Chinese-supplied M11 missiles.

"I have urged Pakistan and India not to take actions in this programme of mass destruction," Perry declared. A Pakistani Foreign Ministry official said Islamabad asked its visitor to tell New Delhi that "Pakistan will consider the serial production, and not just the deployment, of Indian missiles as major escalation."

The two countries have clashed in war three times in 45 years, and analysts read escalation of tensions between them in both their missile programmes and their nuclear ambitions. The White House has held that the Nuclear Non-Proliferation Treaty is the best way to keep these ambitions at bay. But sources in Islamabad say the American defence secretary, in addition to his gentle bashing of the Pressler Amendment, told the Pakistani Government the U.S. can do little to persuade India and Pakistan to move forward on signing the treaty.

In New Delhi, U.S. officials said universal membership of the NPT remains the American goal. They said India was backing proposals for a comprehensive test-ban treaty and a global end to fissile-material production — two measures that could inhibit weapons proliferation. The Americans also said New Delhi has given the U.S. private assurances that it will not try to spoil this year's review of the NPT, during which the U.S. and other members are expected to seek the treaty's indefinite extension. India has often argued that the NPT unfairly creates an exclusive nuclear club and blocks other countries from gaining membership.

For Pakistan, meanwhile, Pressler discussions are a proxy for talks about the NPT. Prime Minister Benazir Bhutto is often accused by her opposition of selling out Pakistan's nuclear programme and risking that she will be bullied, through Pressler and other means, into signing the NPT unilaterally. With the Perry visit, and especially Perry's silence on the treaty, she will probably claim she has gained ground in persuading the U.S. that signing the treaty is impossible unless India does the same.

She has also made progress in improving military relations with the U.S. in the shadow of Pressler. Perry's visit has triggered the reconstitution of the U.S.-Pakistan Consultative Group, disbanded in 1990, to discuss "regional situations, joint military exercises, training of officers and identification of areas of mutual cooperation."

Foreign Ministry officials said the group will be the forum through which Pakistan can retrieve the $658 million it paid for 60 F16 fighters ordered in 1990. The shipments were stopped by the

REUTER

Kashmir building torched by Muslim militants: Perry fails to bring India and Pakistan any closer.

GERHARD JORDEN

Bhutto: Perry's silence helps.

Pressler sanctions. Perry said the U.S. will help Pakistan find a third country to buy the aircraft. Pakistani officials said Perry also asked what else Washington could do for their military within the confines of the Pressler Amendment.

If India and Pakistan were to come to blows again, it might well be over Kashmir. It has been disputed territory since the partition of British India. Foreign Ministry officials in Islamabad said they asked Perry to tell India that Pakistan cannot begin talks with it on Kashmir unless New Delhi improves the human-rights situation there. Before Perry's arrival, Bhutto had other conditions as well. She said in an interview she would be ready for talks if India repealed its anti-terrorism law and reduced its troop numbers in what she called occupied Kashmir. "If India takes these tangible steps, it will see that Pakistan is prepared for a political process," Bhutto said.

British Foreign Secretary Douglas Hurd annoyed Pakistan considerably during his visit in early January, by saying Pakistan is interfering in Kashmir, and asking Islamabad to express support for an Indian initiative to hold elections there. Perry was more cautious: "We are urging the Government of India to evolve a credible political process in Kashmir, but it would be premature to pass judgment on elections there," he said in Islamabad. U.S. officials in the city privately say they are sceptical of the Indian commitment to elections. They are unwilling to press Pakistan unless India shows results on the ground.

In the pre-visit interview, Bhutto said: "It is a contradiction in terms to ask Pakistan to accept elections when Pakistan has committed itself internationally, and so has India, to a plebiscite" on whether Kashmir should join India or Pakistan. (India denies it is bound to hold a plebiscite.) Bhutto added: "We have seen elections in the past and they did not lead to the solution of the Kashmir dispute."

In New Delhi, Perry praised India's recent decisions to release several Kashmiri dissident leaders and allow them to travel abroad. "Specifically we believe it would help reduce tensions in Kashmir if organizations such as the International Committee of the Red Cross were able to operate within its mandate there," he said. Perry indicated he raised the Red Cross matter, but admitted he had gained no commitment from either country to resume discussion on Kashmir.

While Perry was trying to push New Delhi and Islamabad to get along, on other fronts relations were worsening. India ordered Pakistan to cut 15 people from its mission in New Delhi — responding to Islamabad's order earlier in January that India shut its consulate in Karachi. ■

PHILIPPINES

Mass Movement

Pope sends a message to China's Catholics

By Rodney Tasker in Manila

The Mass that Pope John Paul II celebrated in Manila on January 15 will probably go down as the biggest in his papacy. Two million people crammed into the city's Luneta Park, and many more spilled onto the roads outside. The turnout wasn't surprising; the Philippines is Asia's only predominantly Catholic country, and 85% of its people pay homage to Rome.

But even as he experienced the massive outpouring of Philippine faith, the pope preached to other members of his flock living in less hospitable climes. In one of the most significant acts of his tour, he spoke directly to the faithful in China. "Do not be afraid," he told Chinese Catholics in a taped message. His words were translated into Mandarin and broadcast over the Catholic Church's Manila-based Radio Veritas Asia.

MICHEL GAGNE/AFP

The Pope in Manila.

China has ordered members of its official Catholic Church not to accept the authority of Rome. But the pope told the Chinese faithful they cannot be "genuine Catholics" unless they recognize the Vatican's authority and the pope as a successor to St. Peter. "A Catholic who wishes to remain such and to be recognized as such cannot reject the principle of communion with the successor of Peter," he said.

These were words the Chinese Government did not want to hear. According to one church official, the pope even referred to the Virgin Mary as "Queen of China." A Foreign Ministry spokesman in Beijing responded by saying the Vatican should not interfere in Chinese internal affairs, including religious issues. He also repeated China's position that the Vatican should sever diplomatic relations with Taiwan.

China cut ties with the Vatican in 1957 after the church recognized Taiwan. Beijing then set up a Catholic Patriotic Association that doesn't accept the Vatican's authority. Church officials estimate that the Beijing-approved church has around 4 million members. But they also believe a similar number of Catholics are members of an underground, or "silent" church, that does recognize the Vatican.

Still, there were some signs of a thaw in Vatican-Beijing relations. A delegation from the state-sanctioned Chinese church prayed with the pope at the January 15 Mass, which was held to celebrate the 10th Catholic World Youth Day. In its first such move, Beijing sent five priests and four nuns to Manila. And only a few days earlier, the Bishop of Shanghai said normalization of relations between the Vatican and China was imminent.

Evidently overwhelmed by the massive crowds that turned up to see him, the 74-year-old pope called the Filipino people a "phenomenon." The turnout was much smaller when the pontiff first visited the Philippines in 1981. Then, many Filipinos stayed away because they refused to play along with dictator Ferdinand Marcos, who tried to use the papal visit to bolster his legitimacy.

Yet the pope's latest visit was not all plain sailing. For all his charisma, he has taken a relentlessly conservative line on social issues. During his Manila sojourn he strongly championed the stance against artificial birth control taken by Cardinal Jaime Sin, Archbishop of Manila.

During a closed-door session with members of the Catholic Bishops' Conference of the Philippines, the church's ruling body in the country, the pope is reported to have said: "Because the church treasures the divine gift of human life, she cannot but strenuously oppose all measures which are in any way directed at promoting abortion, sterilization and also contraception." He criticized those who "plotted" to spread artificial birth control.

This was interpreted as a reference to President Fidel Ramos, a Protestant and the country's first non-Catholic leader. Ramos and Health Secretary Juan Flavier have provoked Cardinal Sin's ire by offering Filipino couples options for birth control. ■

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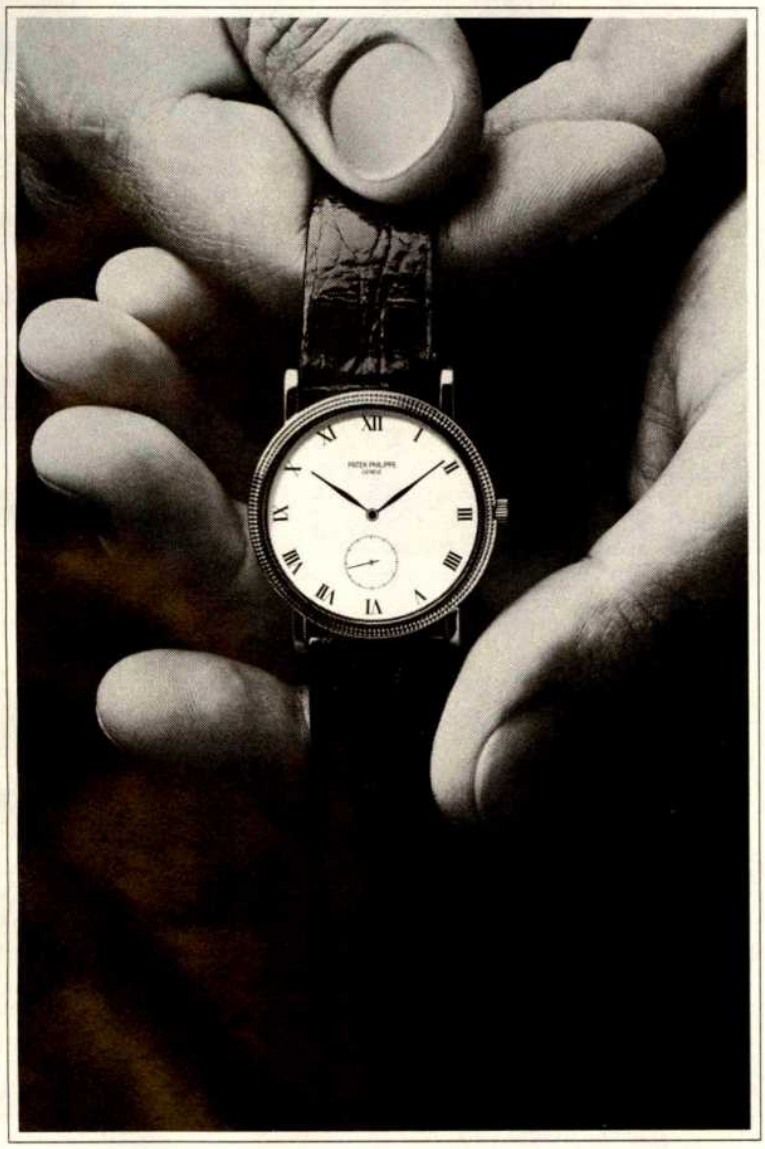

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Wigged, gowned and ready to serve: Will Beijing leave them alone after the handover of sovereignty in 1997?

HONG KONG

Justice Under Siege

Ominous signs emerge that the rule of law — a pillar of Hong Kong's prosperity — risks being eroded by political interference and disorder after China takes over in 1997.

By Louise do Rosario in Hong Kong

It's not the kind of thing that's supposed to happen in orderly Hong Kong. In mid-January, 16 mainland Chinese brazenly grabbed a local businessman in broad daylight and stuffed him onto a freighter bound for Guangdong province.

After a 20-minute chase through Hong Kong's crowded harbour, marine police intercepted the ship. They found the businessman, who said he was a garment maker, tied up in the cabin. According to police, the mainlanders claimed he had cheated them out of thousands of dollars.

A senior police officer described the attempted abduction as a "direct challenge to the law and order of this territory," and vowed to keep such incidents from happening again. But making good on that pledge may not be easy.

Some legal observers fear that the rule of law — a pillar of Hong Kong's prosperity — is being eroded as the British colony's handover to China approaches. They worry that after 1997, it could be swept away altogether in a tide of Chinese-style cronyism, influence peddling and disorder.

The trend is worrisome, not only to those concerned with individual liberties but also to many who have a stake in Hong Kong's economic future. "If that crucial ingredient, the rule of law, were to be eroded in the future, it would certainly and seriously undermine Hong Kong's competitiveness and attractiveness to international business," warns Thomas Gorman, chairman of the American Chamber of Commerce in Hong Kong.

"By the year 2010, Hong Kong may be no different from any other Chinese city," adds Marc Faber, a leading Hong Kong business consultant. "It could be rather chaotic."

American fast-food giant McDonald's got a taste of Chinese-style business in November, when it was ordered to move from a prime Beijing site despite having a 20-year lease. Wall Street investment bank Lehman Brothers, meanwhile, sued two state-owned Chinese firms to recover losses from currency transactions.

While Hong Kong's legal system isn't perfect, its courts have nonetheless been settling commercial disputes for decades. That means business foes don't have to resort to kidnapping, or other dubious detentions of the type that have grown common in China.

Some Hong Kong businessmen have been held for months in China on suspicion of involvement in commercial fraud *(see accompanying story)*. In Hong Kong, suspects would rarely be held for more than 48 hours without charge. They would have prompt access to their lawyers and

relatives, and a chance to get bail.

Hong Kong's legal system is based on British Common Law, a vigorously tested system of clear rules, precedents and legal rights for all. Though it certainly doesn't hurt to have good political connections in Hong Kong, the colony's executive, legislature and judiciary are designed to balance each other, preventing abuse of state power. That contrasts sharply with China, where the judiciary often operates like an arm of government, almost never contradicting the ruling Communist Party.

"The party won't let anything get in the way of policy," says Edward Epstein, a senior law lecturer at the University of Hong Kong. "The executive can make and interpret the rules, but the courts can't review the validity of the rules."

The legal systems of Hong Kong and China are supposed to remain separate for 50 years after 1997 under the "one country, two systems" formula promised by Beijing. Existing courts, legal procedures and laws are to continue to operate unchanged after 1997.

It's starting to look increasingly doubtful, however, whether Beijing will leave Hong Kong's legal system untouched. China has already reversed a pledge to allow the colony's legislature to sit beyond 1997, in reaction to Governor Chris Patten's manoeuvres to make the body more democratic.

"It appears that Beijing's 'one country, two systems' formula will apply only to economics," says Daniel Wong, a solicitor and secretary-general of the Hong Kong Association for Democracy and People's Livelihood, a liberal political group. "The rest, including the legal system, is in danger of moving in the direction of becoming 'one country'."

Last month, for example, the director of China's Hong Kong and Macau Affairs Office, Lu Ping, indicated that all judges will have to be reappointed after 1997. Such a change could pose a real threat to judicial independence, says Hong Kong's chief justice, Sir T.L. Yang. "A judge who is worried whether his contract of employment will be renewed may feel obliged to tread carefully over a trial in which the government is the defendant," he says.

Martin Lee, a barrister and head of the Democratic Party, is more outspoken. "China wants to pick the right people to hold judicial posts — that is, to install those who make politically correct decisions. That's the last thing we want to see; the judges will then have no security of tenure."

Another ominous sign is Beijing's express intention to scrap the Bill of Rights, a 23-article law that enables an individual to sue the government for violation of his civil rights. Then there is the uncertainty over the Court of Final Appeal, due to be set up as the ultimate arbiter of law in the Hong Kong Special Administrative Region from 1997.

In the Basic Law, China's mini-constitution for Hong Kong, Beijing wrote that the court would include both local judges and overseas judges from other common-law jurisdictions. But it later broke its promise, saying only one overseas judge will be allowed to sit on the five-member court. London secretly acquiesced to the revision in 1991, despite strong opposition from within Hong Kong.

DOMINIQUE FAGET/AFP

Chief Justice T.L. Yang (*left*), Martin Lee: questions on security of tenure.

Some legal observers are getting nervous about Chinese tampering. They argue that Hong Kong needs an independent judiciary now more than ever, with law and order deteriorating across the border. Another concern is that with the surging number of Chinese companies operating in Hong Kong, a business culture is emerging that often ignores the law's fine print.

Ambrose Lau, a solicitor and member of the Preliminary Working Committee, a Beijing-appointed advisory body, says the fears are unfounded. "I don't think we should indulge in all sorts of unrealistic speculation. What good will it do?" The Basic Law's provisions already ensure the continuity of the current legal system, he says.

How is the rest of the legal profession coping with such powerful wind from the north? Not too well, say some analysts, who suggest that the profession is already starting to bend under political and economic pressures.

A glaring example is the behaviour of the Law Society, a body that represents solicitors. Initially it was in the forefront of opposition to the 1991 Sino-British deal limiting the Court of Final Appeal to one overseas judge. Recently, though, the society reversed itself, saying it would support the deal after all.

The turnaround drew furious opposition from several hundred of the society's 3,320 members, who accused their executive council of a sell-out. But on January 15, a general meeting of members voted to support the decision, thanks largely to 1,200 proxy votes. Legal sources say several major law firms that depend on China business had asked staff solicitors to give their votes to proxies who would support the decision.

Some others likely to comply with China's wishes are the 87 solicitors designated by Beijing as "attesting officers" in Hong Kong, with the authority to notarize documents relating to trade, property transactions and many other aspects of China business. Their monopoly "is like a licence to print money," says solicitor and democracy activist Wong.

Lau, of the Preliminary Working Committee, himself an attesting officer, disagrees with suggestions that the legal profession has been compromised because of its growing business ties with China. "I don't consider this a fair comment. We have been very independent in the past and I am confident that we will remain so in the future."

But when it comes to judges, a single weak link is all it takes for the chain of independence to break. "If you have one or two judges who allow themselves to be influenced by the [new government's] chief executive, so-called sensitive cases would be sent to them no matter how good the other judges are," says barrister Lee.

"And there goes the rule of law. It's very easy for the system to collapse." ■

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HONG KONG

Risky Business

Does China-style disorder lie in store?

By Louise do Rosario in Hong Kong

It takes a shrewd operator to make money in China, and Hong Kong businessmen are among the shrewdest. They're adept at spotting opportunities, building personal connections and finding their way around the mainland's maze-like bureaucracy.

But even these old hands can get themselves into serious trouble in China, as a recent Hong Kong government report confirms. It documents the cases of 18 people with links to Hong Kong who, since 1991, have disappeared or been detained for months without charge in China. One is a Chinese journalist accused of leaking state secrets to a Hong Kong publication; the rest are businessmen embroiled in commercial disputes.

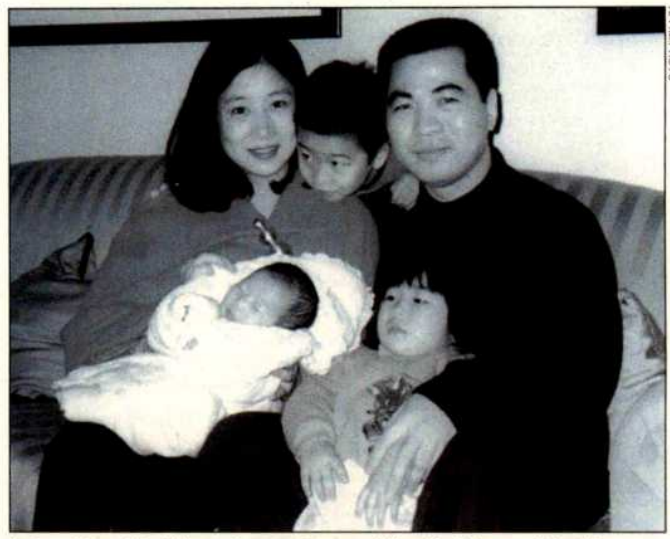
Such detentions, many more of which probably haven't been reported to Hong Kong's authorities, are becoming ever more frequent in China. Some observers fear that when Beijing takes over in 1997, this arbitrary and opaque style of law-enforcement could infect Hong Kong as well.

The best-known case is that of James Peng, a Chinese-Australian businessman. In October 1993, police in Macau, the Portuguese enclave near Hong Kong, took Peng from his hotel room and turned him over to the Chinese authorities in neighbouring Zhuhai.

Peng had won a court case in Guangzhou against the Chinese partner in his joint-venture company. But he was detained as the partner pressed another suit in nearby Shenzhen, where the venture's factory is located.

"I kept my silence for five months," says Peng's wife Lina, who lives in Hong Kong. "People told me not to create a big fuss, so that the Chinese authorities could make a climbdown from their mishandling of the case quietly." When that approach didn't win her husband's release, she went public. But Peng is still being held, and his wife is afraid to visit him. "I may be arrested too," she says.

In an earlier case that began in July 1991, a Hong Kong businessman was taken from Guangzhou to Hangzhou after goods he delivered to a Chinese company were stolen, according to the Hong Kong government report. Hangzhou public-security officials, claiming they were acting to recover the losses, demanded payment of 1 million renminbi ($118,000) for his release. He was freed after paying part of the sum, but his brother and two employees were held hostage for the rest. They were finally freed after the British Foreign Office intervened.



AFP/PHOTO

In trouble with China: James Peng, with wife Lina and family.

While such diplomatic intervention has helped obtain the release of some Hong Kong residents, there's not much the Hong Kong Government can do. "There is no formal locus to raise consular-type requests with China," says an official, noting that Hong Kong residents generally use Chinese documents to travel to the mainland.

The families of other detainees have sought aid from officials at the Xinhua news agency — China's de facto embassy in Hong Kong — and from politicians with close ties to Beijing. But it was the persistence of John Kamm, a human-rights lobbyist, that helped secure the release of Chong Kwee-sung, a Hong Kong resident and American citizen held in Henan province for 30 months without charge. "Between May 1992 and January 1993, I raised the subject in every single meeting I had with Chinese officials," Kamm says.

For sure, some of the Hong Kong business types detained in China may not have been innocent victims. "Where there is smoke, there is fire," quips Alfred Shum, a partner in accounting firm Ernst & Young (Hong Kong). "There have been a lot of fly-by-night operators disguised as big-time investors. They took advantage of the naivete of the Chinese authorities."

Kamm retorts that nothing justifies indefinite detention without charge. "Whether or not an individual is a shady character is an entirely subjective decision — and has nothing to do with the fact that the person should enjoy some due process under internationally accepted law."

Equal treatment under the law is not something the Chinese legal system can guarantee, however. As some official directives have acknowledged, public-security officials often act on behalf of Chinese businessmen disgruntled with their foreign partners.

"This is seriously infringing the lawful civil rights of suspects and citizens, and also is harming the image of public-security units," said a Beijing directive to authorities in the provinces. "The situation has to be redressed."

Often, Chinese police don't bother to obtain documents for searches, arrests and detention, which leaves much room for arbitrary action and abuse of power. Even when the alleged crime is a minor one, police tend to confiscate a suspect's travel documents and even detain his relatives and employees. And in cases documented by the Hong Kong Government, detainees didn't have access to a lawyer or to their relatives for weeks.

Nor are China's courts reliable purveyors of justice, as Philip Cheng can attest. A United States-passport holder and a Hong Kong resident, Cheng was detained in China without charge between August 1993 and March 1994. The reason: His Chinese partner, Liu Xianyou, general manager of an export firm, had invested $165,000 in Cheng's factory but wanted the money back.

Cheng was arrested in Hunan province by a judge and six court guards, later found to be friends of Liu. Moreover, a detention centre where Cheng was held for 70 hours was run by Liu's brother-in-law. "It's all one big network," says Cheng, now back in Hong Kong. The U.S. Embassy lobbied vigorously on Cheng's behalf, and he was freed after another court ruled that his detention and the confiscation of his passport were illegal.

Cheng considers himself lucky. "I could have vanished into thin air in the small, dark detention room, without a trace," he says.

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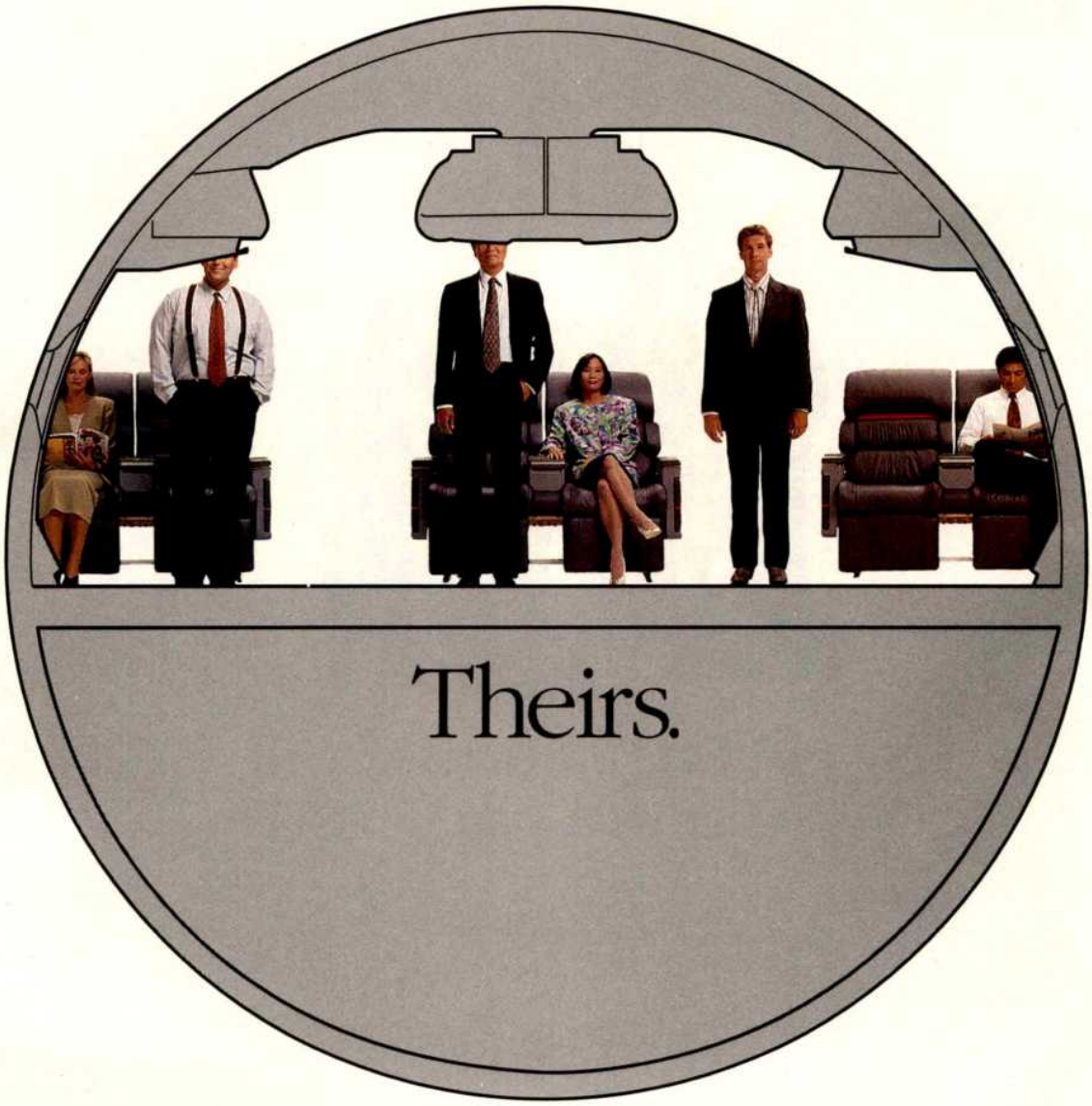

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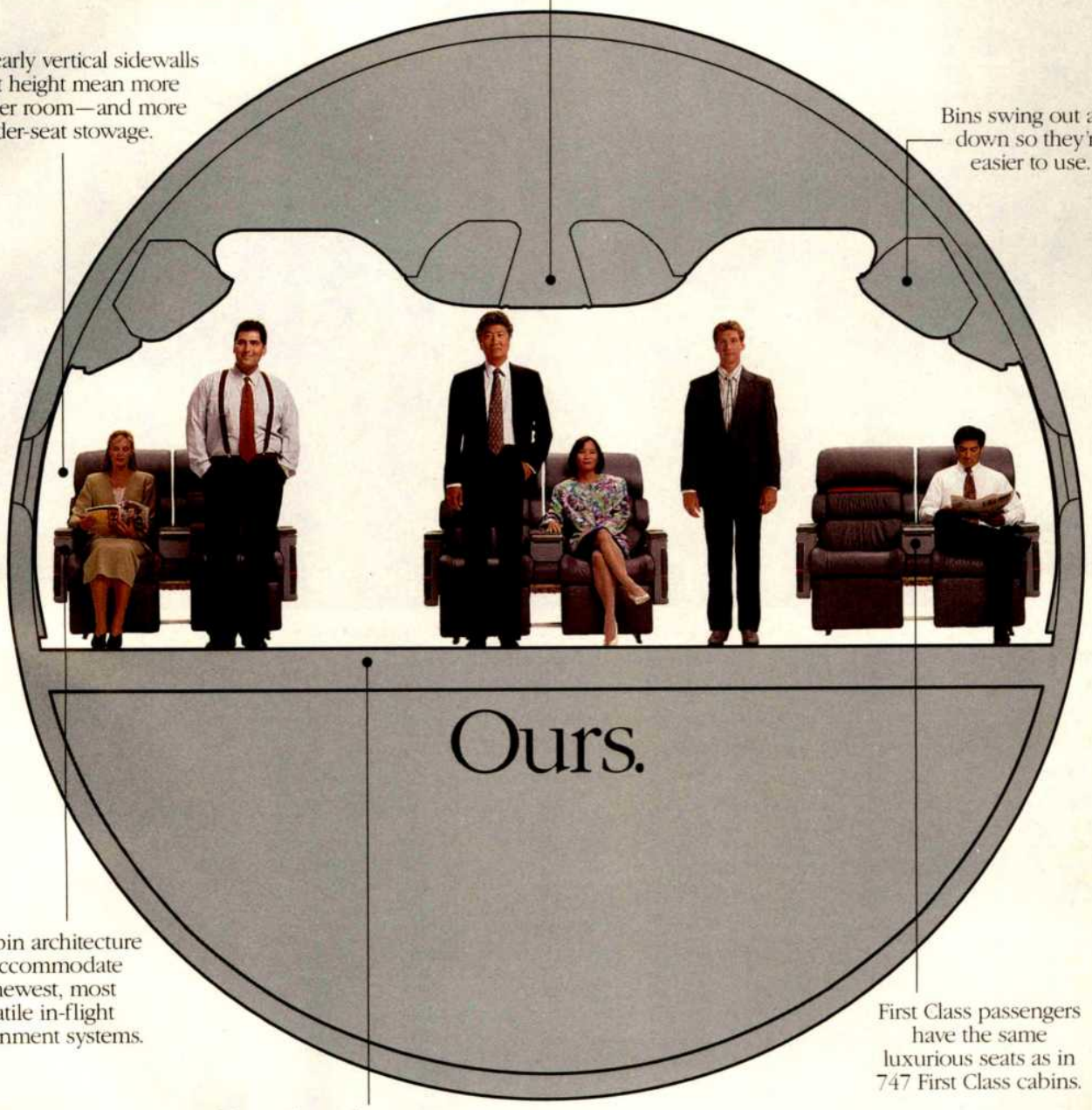

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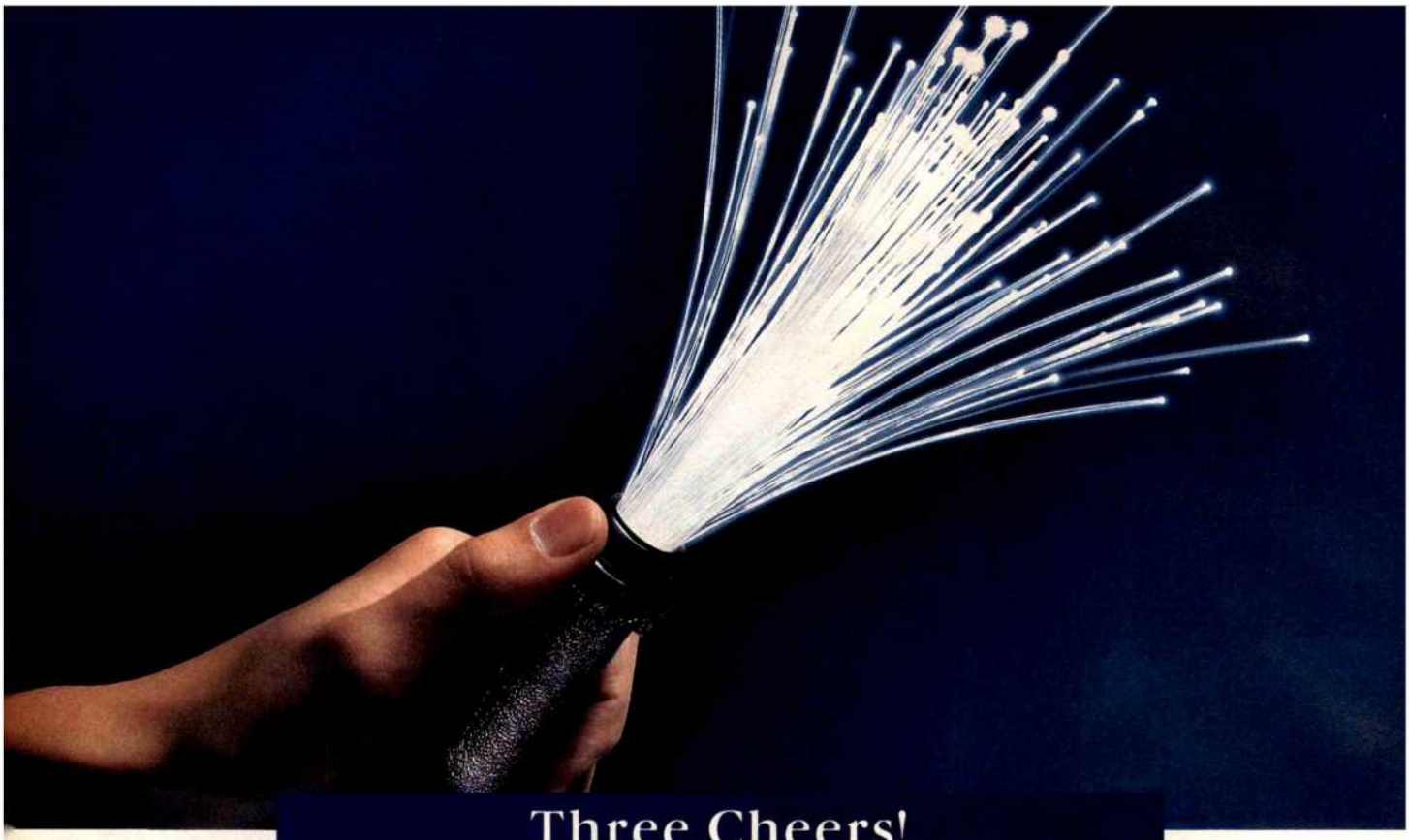

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such nasty encounters with the Chinese legal system, but Robert Munro, the Hong Kong director of Human Rights Watch/Asia, warns that "it's coming."

It already has for a Hong Kong-based British trader who acted as buyer for a Dutch company. He says he was held hostage in Guangdong province in mid-December until the Dutch firm paid a $38,500 debt demanded by its Chinese supplier. Six or seven "large men with stun guns" held him at a hotel for three days, he says.

Certainly, more foreign firms are finding themselves embroiled in business disputes in China. When Lehman Brothers recently sued two Chinese companies it made headlines, but the suit won't necessarily pay off. A British investor, Richard Gosling, recently won a court case against a Chinese firm but is still struggling to obtain compensation.

"The things that are wrong with China as a place to do business are [reflected] in the same kind of abuses that we who follow the human-rights situation see happening regularly," argues activist Kamm. "You shift the prism a little bit, and you see the Lehman Brothers' dispute here; commercial kidnapping, there."

Rights Watch's Munro says the rule of law has eroded in China despite the country's impressive economic growth. "Western business lobbyists have argued that the best way to promote human rights and the rule of law in China is to support economic reform. The basic premise is that with the increase in trade and economic development, it will reduce the influence of the Communist Party and we'll see the emergence of a strong civil society. There's no evidence of that happening soon. Instead, it seems to have gone the other way in the short to medium term."

Others say a weak central government can no longer effectively protect investors of any nationality. "Why are more Chinese firms breaking contracts? I think it's because there has been a very extensive breakdown in social order within Chinese enterprises," says an American lawyer with a decade of experience in China trade. "There are no rules, just every man for himself."

Adds former detainee Cheng: "The centre tries to help as much as possible in cases where there has been a blatant miscarriage of justice by local authorities, but it doesn't have any control over the local courts."

Cheng, who still goes to China to do business, offers this advice to investors. "If you represent a big company, like Boeing or General Motors, it's okay to go to China. If you are a small firm or a lone individual operator, don't go. Doing business with China is like dancing with the wolves. They could eat you up alive even when everything seems to be going fine." ■

HONG KONG

Papa Don't Preach

Li family rift reflects colony's polarization

Confucius says a daughter should obey her father. But in fast-changing times, that's easier said than done.

Take Gladys Li, a 46-year-old barrister who has just become chairman of the Hong Kong Bar Association. She's an ardent supporter of greater democracy and human-rights protection in the British colony, due to revert to Chinese rule in two and a half years.

That puts her on the opposite side of a gaping ideological divide from her father, retired Court of Appeal judge Simon Li. The 72-year-old Li is a prominent conservative and a leading adviser to Beijing.

The Lis personify the split in Hong Kong's legal profession, which, like the political world, is becoming increasingly polarized as 1997 approaches.

MING PAO WINDOW

Gladys Li, Simon Li: Democracy divides daughter and father.

The elder Li implies his views are rooted in his knowledge of China and personal experience of injustice under British colonial rule. "When I joined the government in 1952, I was paid less than my expatriate colleagues. I got no fringe benefits, no housing allowance and had fewer holidays," he says.

A conservative judge, Li believes the death penalty — not used in Hong Kong for years — should be employed when appropriate after 1997. He doesn't think very highly of the Bill of Rights, passed by Hong Kong's legislature in 1991 to protect civil liberties.

In Li's view, Governor Chris Patten's attempt to introduce more democracy in Hong Kong is just a plot to perpetuate British influence after 1997. That's a view shared by Beijing, which named Li as one of its advisers on Hong Kong. He heads the legal-affairs sub-group of the Preliminary Working Committee, a 57-member panel advising China on matters relating to the takeover.

Gladys Li, in contrast, believes Patten hasn't gone far enough with his political reforms. She want elections to the Legislative Council to be more open. The Bar Association, meanwhile, opposes China's decision to limit Hong Kong's proposed Court of Final Appeal to one overseas judge, prompting pro-Beijing local newspapers to label the lawyers' body "a loyal defender of colonialism."

Simon Li shares Beijing's opinion about some of the company his liberal daughter keeps. He has described pro-democracy lawmakers Martin Lee and Szeto Wah as unfit to sit in the legislature after 1997.

A vigorous defender of human rights, Gladys Li has called for the government to better promote the Bill of Rights and to set up a human-rights commission. She gave free counsel to political activist Lau San-ching when he challenged the government's decision to disqualify him from a local election.

She has also criticized the Basic Law — a Chinese document that her father helped to draft — as contradicting the 1984 Sino-British Joint Declaration on Hong Kong's future. For example, the clause giving Beijing's parliament the final say on interpretation of Hong Kong laws is "totally incompatible with the independence of the judiciary," she has said.

Educated in England from the age of 11, Gladys Li speaks with a crisp British accent and knows how to keep a stiff upper lip. "It requires immense courage to withstand the Chinese threats," she was once quoted as saying.

What does Simon Li think about his daughter's views? "I trust my daughter to be a genuine democrat and I respect her for that," he says, stressing: "We have good father-daughter relations at home."

Asked if he has any regrets about the way he raised Gladys, Li says: "The only thing is that I haven't educated my children enough with Chinese culture and civilization. Had they had more knowledge, they might find it easier to understand why the situation is so different in the East from the West."

■ Louise do Rosario

INDONESIA

Cold War Bogey

Opposition party roiled by charges of communist links

By John McBeth in Jakarta

For anyone who thought McCarthy-style communist witch-hunts had gone the way of the Cold War, Indonesia makes a sobering study. In a country still haunted by a failed experiment with liberal democracy in the 1950s and a savage anti-communist bloodletting a decade later, the Marxist label remains a convenient weapon with which to stigmatize troublemakers.

Take the Indonesian Democratic Party, the closest thing Indonesia has to a political opposition. Already riven by internal intrigue that sometimes makes it appear its own worst enemy, the PDI, as it's known, has now been hit with a tactic right out of a dog-eared Cold War playbook. Three hundred of its members, it's alleged, may have past links to the banned Indonesian Communist Party, or PKI.

The claims — as yet unsubstantiated — were levelled in early January by former PDI central executive member Jusuf Merukh and other party malcontents. Home Affairs Minister Yogie S. Memed and armed-forces commander Gen. Feisal Tanjung have since given credence to the allegations. So far, however, the only action by the authorities has been against Djadjang Kurniadi, chairman of the PDI's West Java chapter. He has been suspended from his post pending the outcome of an investigation by the government's security coordinating agency, Bakorstranas.

PDI officials and independent analysts are convinced the smear tactics are part of a campaign to discredit PDI chairman Megawati Sukarnoputri, daughter of the country's first post-independence leader, the charismatic Sukarno. The move is also said to be aimed at undermining the drawing power of Indonesia's smallest political party well ahead of parliamentary elections due in 1997.

Marzuki Darusman, deputy head of Indonesia's government-appointed human-rights commission, feels the allegations are merely a manifestation of "an unjust and unfair" system under which tens of thousands of people are vulnerable to shifts in the political climate. "It's being a bit ridiculous," says Marzuki, a former legislator in the ruling Golkar party. "Public opinion is in favour of seeing this whole thing scrapped."

UPALI ATURUGIRI/AFP

Megawati becomes a target.

There's no doubt that suspicion of communist influence runs deep in the government and military. The PKI was outlawed in 1966 after it was blamed for staging an abortive coup the previous year in which six leading generals were murdered (their bodies were dumped in a suburban Jakarta well). In the year following the coup attempt, hundreds of thousands of people were killed in a bloody purge that destroyed the entire structure of Asia's second-largest communist party and led to Sukarno's overthrow.

According to Amnesty International, 22 people were executed between 1985 and 1990 for alleged involvement in the coup or for membership of the PKI. Six others remain on death row. There have seem to have been no further executions, however, since Indonesia established diplomatic relations with China. It had previously accused Beijing of helping to foment the insurrection.

Still, many Indonesians are nonplussed by the apparent decision to revive the communist bogeyman. "It's nonsense, because if the charges were true it would mean the army hasn't done its job," says the PDI's deputy parliamentary leader, B.N. Marbun. "Perhaps they think it is the only way they can get rid of Megawati. But after 30 years how can people be victimized like this?"

The PDI, in any case, seems an unlikely threat to the ruling Golkar machine. In a sterile political environment in which the

Forgive and Forget

While some Indonesian officials evidently fear lingering communist influence, the government-appointed National Commission on Human Rights is trying to rehabilitate former political prisoners detained at the time of the 1965 coup attempt. In an interview, the commission's deputy chairman, Marzuki Darusman, disclosed that it's seeking to scrap a system under which an estimated 1 million Indonesians continue to be treated as second-class citizens.

Although most were never tried or convicted of any offence, their identity cards are stamped "ET" (Ex-Tapol, or political prisoner). Together with subcategorizations ranging from "A" to "C3," the mark carries a powerful stigma: Former detainees, and often their close relatives, are prohibited from working as politicians, civil servants, journalists, teachers, puppeteers and preachers.

Even people who weren't born at the time must obtain a document verifying they had no direct or indirect part in the 1965 coup if they apply for a civil-service job. Former PKI members are granted the right to vote only after obtaining government approval. Before the last general elections, in June 1992, for example, the government said 36,345 ex-detainees wouldn't be permitted to cast ballots.

Marzuki says the human-rights commission was asked to act on the issue by men with impeccably patriotic credentials: 1945-era independence fighters, some of whom he identified as Central Javanese comrades-in-arms of President Suharto. "They say it's time to close this phase of our history, and the commission is unanimous in its agreement. We don't want to have a category of second-class citizens."

He says scrapping the classification system would be an administrative process that wouldn't require presidential approval. The official response so far has been largely encouraging. "We have already spoken to army headquarters and they don't seem to have any objection to get this matter solved," Marzuki says. "There is some hesitancy, however, from the Home Affairs Ministry."

■ John McBeth

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playing field is far from level, the word "opposition" is an anathema to the consensus-based Pancasila state ideology. Formed from the 1973 merger of Sukarno's Indonesian Nationalist Party and four other nationalist and Christian groups, the PDI has only 56 parliamentary seats compared with Golkar's 282 and 62 held by the Muslim-oriented United Development Party.

All this, however, is cold comfort to Golkar, even if Megawati has yet to demonstrate the leadership and charisma that made her father a commanding figure. Just the fact that she is Sukarno's daughter is enough to cause severe heartburn to Golkar's leaders, who worry about her impact on a younger generation of voters and about a possible slide in Golkar's fortunes in the 1997 elections.

In backing Information Minister Harmoko for the Golkar chairmanship in October 1993, President Suharto made it clear he was unhappy at the way the party's popularity had declined under the previous military-backed incumbent. Although there is little danger of the party losing its grip, the president was clearly concerned that Golkar obtained only 68% of the vote in the 1992 polls, a five-percentage-point drop from its showing five years earlier.

"This is confirmation how scared the establishment is of us," says PDI treasurer and executive member Laksamana Sukardi. "It could be a blessing in disguise. A lot of people don't like this approach and sympathize with us. After all, if it's allowed to happen to the PDI, it could happen to anyone."

It is still far from clear where the bulk of the military stands on the PDI affair. Disgruntled over Suharto's choice of a civilian to fill the Golkar chairmanship, the military played a key behind-the-scenes role in Megawati's election. Those same elements may still have an interest in seeing that PDI members sort out their problems; then, as a Western analyst puts it, the party would "remain in a position where [the military] can use it if they want to." While it is considered extremely unlikely, some military officers suggested at the time of Golkar chairman Harmoko's election that the armed forces might withdraw support for the ruling party.

Some observers argue in any case that armed-forces commander Feisal stands pretty much alone in his concern about communist influence in the PDI. Indeed, the only other senior officer to state publicly that he takes the PDI charges seriously has been Central Java regional commander Maj.-Gen. Soeyono. "We will not hesitate to crush anyone who has communist links," he said recently. ■

ADAM SCHWARZ

PDI supporters: Red underneath, too?

Mediating or Meddling?

Officials of the Indonesian Democratic Party express little surprise at the upheavals of recent weeks. "Government interference in our affairs is a public secret," says PDI treasurer and executive board member Laksamana Sukardi. "There's no doubt about it. After all, the job description of the Home Affairs Ministry's regional social-political affairs directorates is to meddle."

Laksamana and others cite as evidence the botched efforts during 1993 to prevent Megawati Sukarnoputri's election as PDI chairman. In late December, under an internal compromise, Megawati was forced to include seven opponents on the PDI's 29-member central executive board. Megawati's supporters now brand some of them "willing collaborators" in efforts to discredit her and prevent the party from gathering momentum, particularly in populous Java.

"I think there are people [in the party] who are earning their living by doing this sort of thing," says Laksamana, a banker turned business consultant who pulls few political punches.

The party's latest troubles began in September, when the executive board was called on to adjudicate in a disputed election for the chairmanship of the East Java chapter. Although the challenger, Sutjipto, finished well ahead of incumbent Latief Pudjasakti, party leader Megawati had to declare the outcome invalid after it was discovered there were three more votes than voters. Party sources say they were apparently slipped into the ballot box during two mysterious power outages.

The PDI board subsequently declared Sutjipto the victor because the extra votes would have made no difference to the outcome. But in a controversial move, East Java Governor Basofi Sudirman, a former chairman of the Jakarta chapter of Golkar, refused to recognize the decision. Instead he threw his support behind Latief, causing many PDI members to complain that the governor had overstepped his powers. Latief was appointed by the government to head a PDI caretaker board last year after a party congress in Medan failed to elect a leader.

Despite the governor's intervention, Home Affairs Minister Yogie S. Memed insisted that the problem would have to be solved by the PDI itself. In early December, Megawati did just that, sacking Latief and PDI Deputy Chairman Gerry Mbatemooy, who had authorized Latief's inauguration as East Java chairman without her knowledge.

Then things turned really nasty. In early January, party rebels responded by accusing West Java leader Djadjang Kurniadi of having past communist links. They later went a step further and claimed that 300-400 members nationwide had similarly suspect backgrounds.

It didn't take the West Java military command long to issue a statement saying there were "indications" that Djadjang Kurniadi, chairman of the PDI's West Java chapter, was a former member of a leftist faction of the late President Sukarno's ruling party. It also accused him of being involved, directly or indirectly, in the 1965 attempted coup.

Mbatemooy then quickly formed a rival PDI executive board under his uncle, Jusuf Merukh, asserting that it was a move to rescue the party from communist infiltration. A West Timor-born goldmine owner, Merukh, is seen by most party members as the main focus of opposition to Megawati.

■ **John McBeth**

Eager to Please

Tokyo sets aside own rules in China aid package

By Charles Smith in Tokyo

A million-dollar debt, it's said, is the borrower's problem; a debt of a billion dollars is the banker's problem. Add political uncertainties about the borrower, mix in some wartime guilt by the banker, and you have Japan's announcement in late December that it will give China ¥580 billion ($5.8 billion) in aid between 1996 and 1998. In addition, it looks as though Tokyo may face pressure to compensate a block of borrowers, led by Beijing, for the rising repayment cost of their yen-denominated loans.

Not counting the latest sum, China has borrowed ¥1.6 trillion since 1979 in the form of low-interest loans. Now it's eclipsing Indonesia as Japan's biggest aid recipient.

AFP

Takemura: reminder from Beijing.

In year-long talks before the December announcement, Japanese leaders backed away from a 1992 Overseas Development Aid charter that says Tokyo will review aid towards countries that cause concern in four areas: human rights, the environment, arms exports and the development of weapons of mass destruction. "We told the Chinese repeatedly during the aid talks that we were concerned about their nuclear test programme and about other issues such as arms exports and human rights," says Yasuaki Tanizaki, director of the Foreign Ministry's loan-aid division. "But they said they didn't want to link aid negotiations with politics."

A former senior Japanese government official who now tracks neighbouring countries' economies says: "The aid talks were a classic case of the sun fighting the north wind. The sun won because Japan didn't want to risk causing any upsets in Beijing at a time when the country's political leadership looks fragile and when there are serious problems with the economy."

Japan's aid officials may have thought that after the final details of the aid package were settled, they could relax. China had other ideas. In early January, Beijing officials reminded the visiting finance minister, Masayoshi Takemura, that China wants compensation for the appreciation of the yen, which it says has added $6 billion to the repayment burden on China's yen loans since 1979.

While Japan has rejected any such notion, China seems determined to pursue the issue. Reporters for Tokyo's *Sankei* newspaper claimed early this month to have an internal Chinese government document that discusses the idea of organizing a joint front with Indonesia and Thailand to demand action from Japan.

While China has over the years pressed Japan on aid, there was a time when Tokyo seemed on the point of calling its bluff. The aid charter, for example, was adopted in June 1992 at a time when Japan was under pressure from the United States to add a human-rights element to its aid policy. Nowadays, though, the Foreign Ministry seems preoccupied with maintaining an uneasy status quo in Sino-Japanese relations.

Since a six-year aid programme for China was already in place when the charter was adopted, the last round of talks tested its nuclear, environmental, weapons-related and human-rights conditions for the first time. "China obviously fails on all four counts," says Hisahiko Okazaki, a former senior Japanese diplomat. But he notes that the charter doesn't say aid will be cut if the principles are violated — only that Tokyo will review the situation.

"In China's case [Japanese aid officials] presumably did just that but they clearly decided not to take any action," he says. "The practice of committing aid to China over a period of several years, rather than for one year at time, means the Chinese can do anything they like once a new programme has been agreed."

China is the only country that gets multi-year aid rather than support for specific projects, says Shiro Saito, a specialist on regional economic development at Tokyo's Asia University. The formula was adopted after Beijing and Tokyo signed a Treaty of Peace and Friendship in 1978.

The Foreign Ministry's Tanizaki says

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Beijing's special treatment reflects the intensely political background of aid talks with China. These began in the late 1970s. The issues included the possibility that China might claim compensation from Japan for damage inflicted by the Imperial Army before and during World War II.

Japanese aid officials claim they tried hard during negotiations to persuade China to switch to a system of settling aid commitments annually. The Chinese held out for a five-year programme, however, arguing they needed its predictability. "In the end we compromised" on three years, Tanizaki says.

The 1996-98 programme will give China an average ¥190 billion annually. To date the highest annual total was Indonesia's ¥180 billion, loaned in 1991. Former Foreign Minister Masayoshi Ohira decided in the late 1970s to appease Southeast Asian sensibilities by ruling that China's aid shouldn't exceed Indonesia's, notes Saito, the regional economy specialist. But Tanizaki says: "The China aid programme has elicited no comments so far from the Indonesians or anyone else in Southeast Asia."

The Chinese aid programme introduces some important changes, says Tanizaki. In the past, most Japanese aid to China helped finance big infrastructure projects in the fast-developing coastal regions. This time, 27 out of 40 projects will be in interior provinces. The programme includes ¥70 billion for transporting water from the Yangtze river basin to Beijing and ¥20 billion for mechanizing agriculture in Heilongjiang in China's far northeast.

Japan decided to stress projects in the interior because China's central government has had difficulty shifting domestic resources there, says Tanizaki. Japanese policymakers also believe projects in the coastal regions have developed to a point where they can be financed by higher-interest loans from Japan's Export-Import Bank rather than by development aid loans at a preferential 2.6%.

And for the first time, Japan's aid programme for China emphasizes cleaning up the environment. Tanizaki says 15 of 40 projects are related to the environment. Japan has insisted that thermal-power stations built with yen loans will from now on include equipment to control sulphur-dioxide emissions. "It's not just China's environment we're worried about," Tanizaki says. China's rapid industrialization has become a threat to Japan's own environment, allegedly causing acid rain.

From 2001 onwards, Tanizaki says, Japan plans to give China aid on an annual basis. But first, he adds, the bankers in Tokyo will have to get the borrower to agree. ■

MALAYSIA

Island Politics

Opposition DAP sees its big chance in Penang

By S. Jayasankaran in Kuala Lumpur

As his taxi plies through the winding streets of downtown Penang, Lim Joo Lee cheerfully points out the sights. Then the talk shifts to the national elections, and he grows serious. An ethnic Chinese, Lim says he voted for the opposition in 1990, but this time will cast his ballot for the ruling National Front. Why the shift? "Everyone's doing well here," says Lim. "No problems."

Malaysian Prime Minister Datuk Seri Mahathir Mohamad must hope there are many more Lims in Penang. The northwestern island-state will be no pushover for Mahathir's Barisan Nasional, or National Front, coalition in the general election that must be held by December. Sources close to the United Malays National Organization, dominant partner in the National Front, say at least two reports commissioned by the party indicate Penang could fall to the opposition.

REVIEW

The Gerakan's Lim Keng Yaik (*seated left*) and Koh Tsu Koon (*seated middle*). *Inset*: Lim Kit Siang.

The second-most-industrialized of Malaysia's 13 states, Penang is unique in that it has a majority ethnic-Chinese population. Given the often-uneasy dynamic between Malaysia's politically powerful Malays and its economically better-off Chinese, this makes for rough-and-tumble politics. To further raise the stakes for the Front, Penang is the home state of Deputy Premier Datuk Seri Anwar Ibrahim. A defeat here would be severely embarrassing for Anwar, Mahathir's heir-apparent.

The opposition, meanwhile, sees its big chance in Penang. Leading the charge is the ethnic-Chinese-dominated Democratic Action Party, which is concentrating its efforts on the state. The DAP came tantalizingly close to an outright win in Penang in 1990, when it got 70% of the urban Chinese popular vote. This translated into 14 out of 33 state seats.

Penang's ruling Gerakan party, an ostensibly multi-racial but also Chinese-dominated member of the National Front, won seven seats in 1990, while Umno won 12. But the Malaysian Chinese Association, Umno's ethnic-Chinese partner, lost every seat it contested. So did the Malaysian Indian Congress, the Front's Indian component.

"The battle royal will be in Penang," says Datuk Seri Lim Keng Yaik, a federal minister and president of Gerakan. DAP chief Lim Kit Siang "is ageing and he's playing on sympathy, asking Penang's voters to give him a chance to become chief minister before it's too late."

The reference to Lim Kit Siang, secretary-general of the DAP for more than a quarter of a century, is indicative of Gerakan's fears. The 54-year-old Lim commands genuine respect among many Chinese as a man who dares to stand up to the government.

National Front officials figure Lim's strategy — the DAP calls it Tanjung Three — will be straightforward. They think he will throw national DAP heavyweights, even those not from Penang, into the fray. These include Lim's son, Lim Guan Eng; the DAP's deputy chairman, Karpal Singh; and party stalwarts Tan Seng Giaw and P. Patto.

Besides other issues, the DAP is harping on the "weaknesses" of Umno's Datuk Ibrahim Saad, the state's deputy chief minister and an Anwar protege. Indeed, the perception that Ibrahim is ineffective has become deep-rooted among Penang residents. One Umno federal minister says

that Ibrahim is unlikely to defend his state seat and will try to win a place in Parliament instead.

Another issue that the DAP will stress is the unpopularity of Penang Gerakan party boss Datuk Tan Gim Hwa. Tan has alienated many voters, especially among Penang's Indians, a senior Gerakan official says. Indians form crucial 10-20% blocs in many constituencies and could tip the balance in close races.

For Lim Kit Siang, it will be a do-or-die battle. In 1990, he gave it his best shot and defeated Gerakan's Lim Chong Eu, chief minister of Penang for 21 years. This time, most National Front officials, including the Gerakan's Lim Keng Yaik, expect him to challenge incumbent Chief Minister Koh Tsu Koon.

Whether he can win is another matter. Political analysts say that Koh has worked hard to establish rapport with his voters. The chief minister is widely perceived as Mr. Nice Guy.

"Kit Siang could get a rude shock," warns Lim Keng Yaik. "Tsu Koon's not easy meat."

Most political analysts doubt that the DAP can pull off a shock victory in Penang. In 1990, they say, the state's voters perceived that there was a real chance the National Front might lose the federal government and wanted to go with the winners. "We were caught with our pants down," admits Gerakan's Lim Keng Yaik. "This time we're prepared."

Back in 1990, Umno did not insist that a Malay become chief minister, which it could have because of its dominance in the state assembly. Penang's chief minister has traditionally been Chinese, in recognition of the state's ethnic balance. "We've reminded voters that they came this close to losing the chief ministership," says the Gerakan's Lim.

Two factors will help the Front. One is the boom economy and Penang's full employment position. The other is a redrawing of state and parliamentary constituency boundaries that could work in its favour.

In addition, Deputy Premier Anwar has been concentrating on the state. Recently, he sent out thousands of personal Chinese New Year cards to key state personnel. Each card was engraved in Chinese characters that he wrote himself. "Anwar's spending a lot of time there," says DAP deputy chairman Karpal Singh. "It will be hard going."

The signs of a National Front revival are showing. In a state by-election in 1992, for example, Singh was beaten by an unknown candidate of the Malaysian Indian Congress. For his part, Anwar appears supremely confident. "I'm more confident of Penang now than I was in 1990," he says. "Kit Siang should start preparing for Tanjung Four." ■

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INDIA

TARUN CHAKRAVARTI

Communist parade in Calcutta: Chief Minister Basu switches routes.

Capitalist Road

Bengal's communists welcome private investment

By Jayanta Sarkar in Calcutta

In 1957, when Kerala Chief Minister E.M.S. Namboodiripad invited the huge Birla industrial house to invest in his state, hard-core leftists accused him of blasphemy. The southwestern state had just elected India's first communist government, and here was its chief minister consorting with the enemy. But the pragmatic Namboodiripad, head of the first freely elected communist government in the world, told his critics that while he had his differences with the capitalists, he had no aversion at all to their cash.

That dalliance with private capital had mixed results, despite Kerala's abundant resources and large labour pool. Some industrialization did take place. But as successive governments displayed a pro-labour, anti-management bias, private industry turned to more hospitable states.

Yet now, three and a half decades after Namboodiripad showed the way, the communist government of West Bengal is taking the same capitalist road. The Communist Party of India (Marxist), or CPI(M), which has run the northeastern state for more than 17 years, unveiled an industrial policy in late 1994 that turns Marx on his head. It welcomes domestic and foreign private investment; it also urges trade unions and workers to stop obstructing managements.

Business is listening. The Confederation of Indian Industry, founded in Calcutta, the state's capital, a century ago, returned to the city for its centenary celebrations on January 4-6. Chief Minister Jyoti Basu couldn't have hoped for a better forum in which to woo investors: The event was inaugurated by Prime Minister P.V. Narasimha Rao and the opening and closing ceremonies were televised in more than 30 countries.

Star billing at the gala went to Singapore's prime minister, Goh Chok Tong. Goh, who spent three days in the city, was accompanied by over 30 businessmen. His visit was part of efforts by Singapore to forge closer ties with West Bengal. "The ball is in [West Bengal's] court," Goh told his audience.

The Singaporean leader's address was peppered with complimentary references to China. Compared to India, said Goh, China had done more to open its economy and lower tariffs. Indeed, investors had been holding back on India, waiting to be convinced that its reforms were irreversible. Still, Goh added, Singapore is now experiencing a "second Indian fever." The first accompanied Prime Minister Rao's visit to the city-state in September. Despite these warmer ties, however, Goh saw little prospect of India joining Asean for another decade.

The galaxy of big names at the event also included Thailand's deputy prime minister, Supachai Panitchpakdi; Britain's foreign secretary, Douglas Hurd; and Iran's foreign minister, Ali Akbar Velayeti. Among other celebrants: Klaus Schwab, president of the World Economic Forum, and the heads of many major multinationals. Said Sanjiv Goenka, chairman of the industry confederation's eastern region: "We have brought the world to Calcutta, and it is up to the state government to utilize their presence."

With Chief Minister Basu in complete control of his party, there seems little reason to doubt that West Bengal will keep its promises. The CPI(M) politburo and central committee, which met in Calcutta in late December, endorsed Basu's line without so much as a murmur. Veteran Marxists and trade-union leaders, the two groups who could have thrown up ideological objections, followed meekly along.

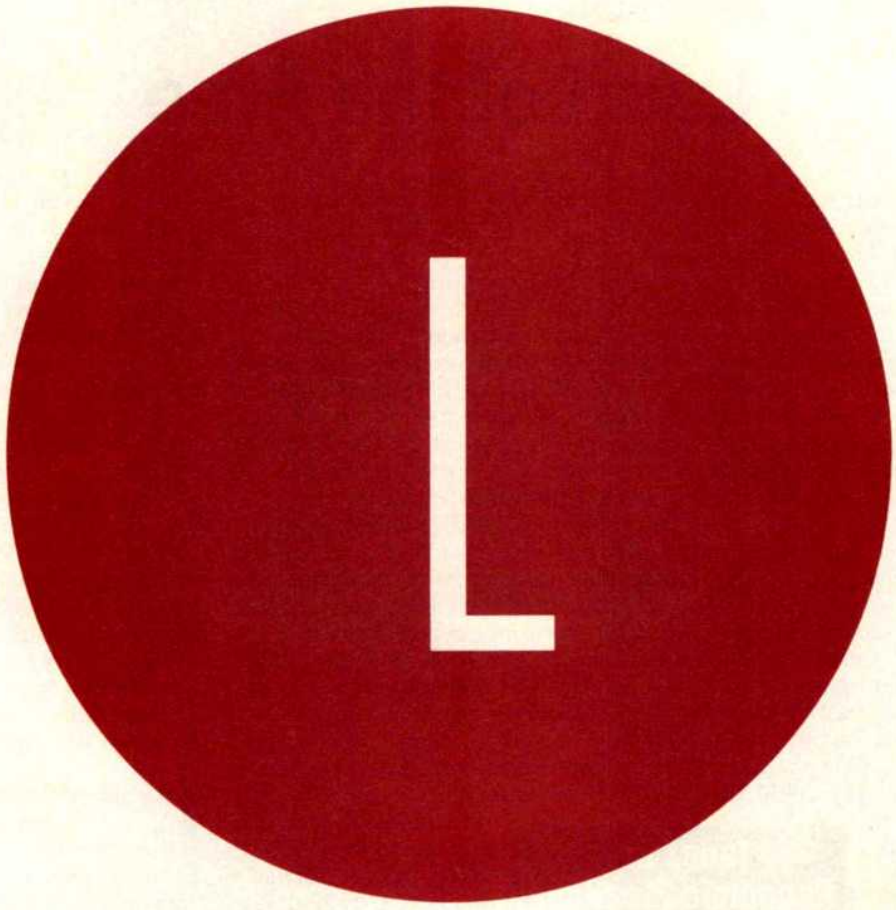
The one exception was Nripen Chakravarty, a former chief minister of the small northeastern state of Tripura, the only other Indian state now under communist rule. In Calcutta for medical treatment, he told a local daily from his hospital bed that Basu's new approach was "deviationist." Basu's supporters first said the Chakravarty interview was concocted, then blocked journalists from meeting him. Clearly, Basu wasn't about to let anyone spoil his party.

Once hailed as a fine administrator, the chief minister has been hurt by charges that his tenure has seen the "desertification of West Bengal." The CPI(M)'s stock defence, that India's Congress government has discriminated against the Marxist-run state, has worn thin. With the Rao government steadily dismantling the controls-and-licences raj and allowing open bidding for investment by the states, the communists too had to show results.

Indeed, a reform-oriented New Delhi on January 12 approved a proposal by New York-based Soros Fund Management to invest 5 billion rupees ($160 million) in West Bengal to set up a refinery at Haldia. Soros is expected to make the investment through its Quantum Industrial Partners fund. The refinery will produce various distillates such as diesel, motor spirit, kerosene oil, aviation fuel, liquefied petroleum gas, naphtha and sulphur.

Basu has often cited the changes taking place in the former Soviet Union, China and elsewhere in the communist world as evidence of a need to move with the times. But with his latest industrial policy the Marxists have taken an ideological U-turn. The change, says a political observer, "is as important as what happened in 1964," when the Communist Party of India split into the CPI and the CPI(M). The CPI aligned with the erstwhile Soviet Union, while the breakaway Marxists chose not to term China an aggressor in the 1962 Sino-Indian war.

In the late 1960s, when the Marxists came to power in West Bengal, some cadres felt it had compromised its revolutionary fervour by governing in a bourgeois system. That led to the so-called Naxalite uprising, in which armed and violent cadres brought the state to the brink of anarchy in the 1970s. Basu must be hoping that his latest policy shift won't lead to similar turbulence. ■



Meet the Face

THE 5TH COLUMN

Edwin J. Feulner Jr. is president of the Heritage Foundation, a Washington-based public policy research institute.

Land of the Free

By Edwin J. Feulner Jr.

It may come as a shock to most Americans that theirs is by no means the freest economy in the world. That title properly belongs instead to Hong Kong and Singapore, which tied for first place on the global economic scorecard compiled recently at the Heritage Foundation.

Our new "Index of Economic Freedom" rates 101 countries on a set of objective factors, inclucing tax rates, trade policy, government consumption of economic output, regulation and protection of property rights. In this sense, "freedom" means less government intrusion into a country's economy.

Despite the near-total collapse of socialism, only 43 of the countries surveyed have economies that rate as "free" or "mostly free." The majority are in Asia. Four of the top 10, and eight of the top 20, hail from the Asia-Pacific region, including Japan (fifth), Taiwan (sixth), South Korea (13th), Malaysia (14th), and Thailand (19th). When the U.S. (only fourth, due largely to high taxes), Canada (eighth) and Chile (20th) are included — all of which are members of the Asia-Pacific Economic Cooperation forum — the more broadly defined region contains 11 of the world's 20 freest economies.

Not surprisingly, Index authors Bryan Johnson and Thomas Sheehy found a clear link between economic freedom and national prosperity. Countries that are the most free economically are also the richest, registering high growth rates and living standards. Those countries that are the least free economically are impoverished, suffering from stagnant growth and low living standards.

Consider the first-place finishers. Hong Kong and Singapore grant consumers and businesses a degree of protection from government intrusion unmatched anywhere else. Their economies are based almost entirely on the freedom of individuals to buy, sell and dispose of their property as they see fit. Between 1980 and 1991, Hong Kong's gross national product grew at an average annual rate of 5.6%, and Singapore's, 5.3%. While their overall wealth may be less than that of some Western industrial democracies, both are catching up and may someday surpass the U.S. and Germany on a per-capita basis.

When the growth of Asia's economies is set against that of many African countries, it becomes even more impressive. By 1965, the Asian Tigers and most sub-Saharan African nations had roughly equal levels of per-capita wealth. In 1965, for example, Gabon had a per-capita GDP of $1,286 against Taiwan's $1,133. Yet, by 1991, Gabon's per-capita wealth had risen to only $3,448 while Taiwan's had climbed to $9,805. Take any variable, such as trade — where Gabon's average tariff is 30.7% and Taiwan's is 4.9% — and it's easy to see how economic liberalization represents the path to prosperity.

The Index also demonstrates a disturbing phenomenon whereby wealthy and economically free countries tend to reintroduce restrictions on economic freedom. As they become prosperous, countries begin adding welfare and social programmes they could not afford when they were poor. This, in turn, begins to affect their prosperity. After achieving economic "liberation," countries such as Sweden and even the U.S. have slipped back down the scale of economic freedom.

The result is something of a contradiction: a world where some of the most developed countries have less economic freedom than developing countries. Sweden, for example, ranked 25th due to its high level of taxation and the large role the government plays in the economy, while Malaysia ranked 14th. That Sweden currently has a higher per-capita GDP than Malaysia ($17,490-7,400) means only that it began industrialization before Malaysia. From 1980 to 1991, Malaysia's economy has hummed along at an average growth rate of 5.6% while Sweden's has hobbled forward at an anaemic 2%. At these differentials it may not take long for Malaysia to outstrip Sweden.

In a discussion of this sort, it is impossible not to mention China. Its economic growth of late has been spectacular, yet the Index assigns the country a rating of "mostly unfree." While China's economy is slowly opening up, the majority of it remains under state control: taxes are high, the average tariff remains near 30%, and private property remains an almost alien concept. About the only factors that account for China's high growth rates are the special, foreign-investment zones in the south and a nascent effort to privatize some state-owned industries.

Above all, the Index debunks the myth that economic growth can be bought by huge transfers of wealth from developed to less-developed countries. This is where the Index fulfils a practical role: as a tool to rethink foreign aid. The U.S., for example, doles out some $14 billion a year in aid to prop up ailing socialist governments. That money has been wasted. The new criterion for help, we suggest, is a country's willingness to embrace free-market reforms that will help it develop.

If enough countries wean themselves from dependency on U.S. aid and embrace the approach taken by Asia, maybe even the U.S. will start to reverse its slow slide towards economic repression. ■

Index of Economic Freedom

The fifteen most economically free countries.

Country	Score
1 Hong Kong	1.25
2 Singapore	1.25
3 Bahrain	1.60
4 U.S.	1.90
5 Japan	1.95
6 Taiwan	1.95
7 Britain	1.95
8 Canada	2.00
9 Germany	2.00
10 Austria	2.05
11 Bahamas	2.10
12 Czech Republic	2.10
13 South Korea	2.15
14 Malaysia	2.15
15 Australia	2.20

Scale: 1=free, 5=repressed

Source: The Heritage Foundation

REVIEW GRAPHIC/RAY LEUNG

Meet the Face of the Future Today!

FRANK CHING

EYE ON ASIA

Indonesia Struts World Stage

But domestic problems hobble its international ambitions

Indonesia enjoys a high international profile these days. Only a few weeks ago, the country successfully played host to the summit meeting of the Asia-Pacific Economic Cooperation forum. It is also host to the secretariat of Asean, chairman of the Non-Aligned Movement and has just won election to a two-year term on the United Nations Security Council.

"We have traditionally been active," Foreign Minister Ali Alatas said in an interview, "but you can say that it becomes more and more visible, especially after we became very visible on Cambodia, now we have the Spratlys thing that we have taken an initiative on. Indonesian foreign policy has always been international, global, not just regional."

For a country that scarcely a generation ago was one of the world's poorest, Indonesia has come a long way. "It's hard to think of another country that has moved from the depths of chaos and poverty to the vibrant, dynamic economy Indonesia has today," a foreign diplomat in Jakarta said. "There isn't one Indonesian who isn't better off."

And the man credited with this achievement is 73-year-old President Suharto, who has led his country since 1967 and who is now serving his sixth five-year term as president. Suharto occupies a unique position in his country. He has impeccable credentials as a national hero, having taken part in an insurrection against the Japanese occupiers of his country during World War II. He also led the military leaders who toppled President Sukarno following an abortive coup launched in September 1965.

Having restored political stability after the tumultuous Sukarno years and seeing his country well on the road to economic development, it is not surprising that Suharto now seeks to play a bigger role internationally. In this, he may well be following, subconsciously, in the footsteps of his predecessor, Sukarno.

After all, it was under Sukarno in the 1950s that Indonesia sponsored the Bandung Conference of Asian and African nations. Sukarno, too, played a key role in the creation of the Non-Aligned Movement in 1961. Sukarno even tried, unsuccessfully, to set up another organization to rival the UN. Sukarno was seen as a world leader and, now that Suharto has achieved his domestic goals, he, too, aspires to that status.

The problem is that his domestic successes are, in a sense, hobbling his international ambitions. Economic development has resulted in a growing middle class which, like the middle class elsewhere, is demanding more of a voice in how they are governed, as well as access to a reliable and independent press. In a real sense, Indonesia's economic success led to the emergence of a critical media.

The opening up of the country economically led many to believe that politics, too, was opening up. But the government showed last June — when it cracked down on three popular weeklies — that politics in Indonesia has not caught up with the economics. The resulting negative publicity cost Indonesia dearly in terms of its international image. The same is true of Indonesia's human-rights record, especially in East Timor.

But Indonesian society of the 1990s is no longer what it was in the 1960s, or even in the early 1980s. While the banning may have been acceptable a decade or two ago, it is no longer palatable to many people today. And while the military still plays an important role in the running of the country, it will never be able to run the economy, because it is simply far too complex. So far have things progressed that one group of Indonesian environmentalists even had the temerity to sue Suharto in court, accusing the president of illegally diverting massive amounts intended for reforestation work to the country's state-owned aircraft manufacturer. The court dismissed the suit.

For a time, the government attempted to depict the banning of the three weeklies as an isolated incident. It now appears, however, that the government, still preoccupied with security and political stability, has decided to step on the brakes to prevent the country from opening up too much, too quickly. Last month, the *Jakarta Post* quoted Information Minister Harmoko as saying that no new current affairs periodicals will be allowed to be published in 1995, thus consolidating the six-month-long crackdown on the media. Some observers believe that Indonesia has decided to emulate China by coupling a more liberalized economy with political repression and authoritarianism.

But that will be difficult to do. Indonesians today are better educated and better informed, thanks in part to satellite television. The government is frustrated, too, because it is no longer able to control events the way it used to. Megawati Sukarnoputri, daughter of the late Sukarno, was elected head of the Indonesian Democratic Party despite attempts by the government, fearful of a resurgence in pro-Sukarno sentiment, to prevent it.

Despite a widespread desire on the part of the public to play a greater role, the government is firmly in control. As one critic put it, "with 7% growth, nobody wants revolution." But the genie of the people's political aspirations has been let out of the bottle and it cannot be put back in. ■

> "The genie of the people's political aspirations has been let out of the bottle and it cannot be put back in"

MIKE FIALA/AFP

Suharto (*left*) plays the Apec host.

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TRAVELLERS' TALES

RAP RAPPED: B.J. Habibie, research and technology minister for Indonesia, was watching television on New Year's Eve. Suddenly his senses were assaulted by the sight of undulating men in strange garb grunting and speaking incomprehensible phrases over syncopated drumbeats.

So this was the infamous "rap music."

The fast-acting minister made a quick decision. He told the country's press that this was decadent and must not be allowed to enter Indonesia's culture.

Jathi Kusumo, chairman of the Nusantara Artists Association, defended it in a rather feeble way. It shouldn't be banned, but he couldn't find anything musical about it, he said. "We should try to understand why a music with no aesthetic value has attracted so many young people," he suggested.

A similar debate is raging in Vietnam, I hear from reader Mark Kenderdine-Davies of Hanoi. Young people who listen to rap "dance in a negative style like Michael Jackson," said a horrified writer in *Cong An*, a police newspaper based in Ho Chi Minh City. "Rap is abusing the wholesomeness of the younger generation. We have problems yet to solve with karaoke and now we have rap. We face a terrible plague. This is pollution of the mind for tired labourers searching for a brief moment of rest."

I'm sure Bach and Handel fans said the same thing when Beethoven appeared.

SMELLS FISHY: This sign was spotted in Guangzhou by Joseph Waring of the ASM Group in the Philippines. What is a "name carp" anyway? Is there some kind of tradition in China to have your name printed on fish?

FOOD FOR THOUGHT: The best-selling true-life saga of life in China, *Wild Swans* by Jung Chang, is now on sale in New Zealand, I hear from Tina Faulk of Canberra. An Auckland bookseller has filed it in the Food section under "Game and Poultry."

Have a tale to tell? Call (852) 2508 4382, fax (852) 2503 1530 or write to GPO Box 160, Hong Kong.

WHO NOSE: Graham Hutchins, China correspondent for the British newspaper, *Daily Telegraph*, showed me the advertisement for Pingba Jiaojiu, a type of alcoholic drink produced in Guizhou, southwest China: "High smell harmonized with good smell, sweet after be drunk, with long smell."

I can't work out if this is referring to the drink or the drinker.

BREWER'S DROP: Richard Brewer of Transpo International Co. writes to tell me that Sopexa Thailand, the wine firm, has been advertising its wine-tastings in the Thai press with the subtle words: "Taste till you drunk."

A CUT ABOVE: I love the way this ad for a barber shop in Japan, sent in by reader Jon Fox of Connecticut, has a line saying: "Free parking for 1,000 cars." I like people who think big.

GROOM FOR IMPROVEMENT: The Khmer Journalists Association of Cambodia has written a code of ethics, I hear from Robert Haas. "The journalist will not accept a bride in any form in consideration of either publication or suppression," the code says.

Do people really come up to hacks in the press club and offer ring-bearing women in veils and white ballgowns? It's never happened to me.

YOU NIT, TRUST: Boy, those Men in Suits are intelligent. They sent a unit trust certificate to Prof. R. Karthigesu of the Universiti Sains Malaysia. Attached was a piece of paper which said: "This slip must be returned to the Managers within 14 days of receipt otherwise we shall presume you have received the above Certificate."

Professor, do you really want people this smart to look after your hard-earned money?

HEAP OF TROUBLE: Don't steal plants from the Bronx Botanical Gardens, warns reader Narayan Ramachandran of Stamford, Connecticut. You may find yourself added to the fertilizer. Gee, I guess the civil rights of offenders in the United States are not as well protected as I'd thought.

FUN MANAGER: Would readers please accept my gratitude for your huge number of contributions, and apologies that they cannot all be included — unless we turn the whole magazine into *Travellers' Tales* (I have asked, but this is technically impossible because we have to squeeze in a snippet or two of news).

Once a week or so my mailbag contains an earnest letter from a reader painstakingly explaining the "misunderstandings" in this column. I appreciate the thought, guys, but I don't REALLY think "Free bacteria" means you get free bacteria and "Sit Lap Sing" means the waitress will sit on your lap and sing. These were supposed to be *funny*. You win some . . . ■

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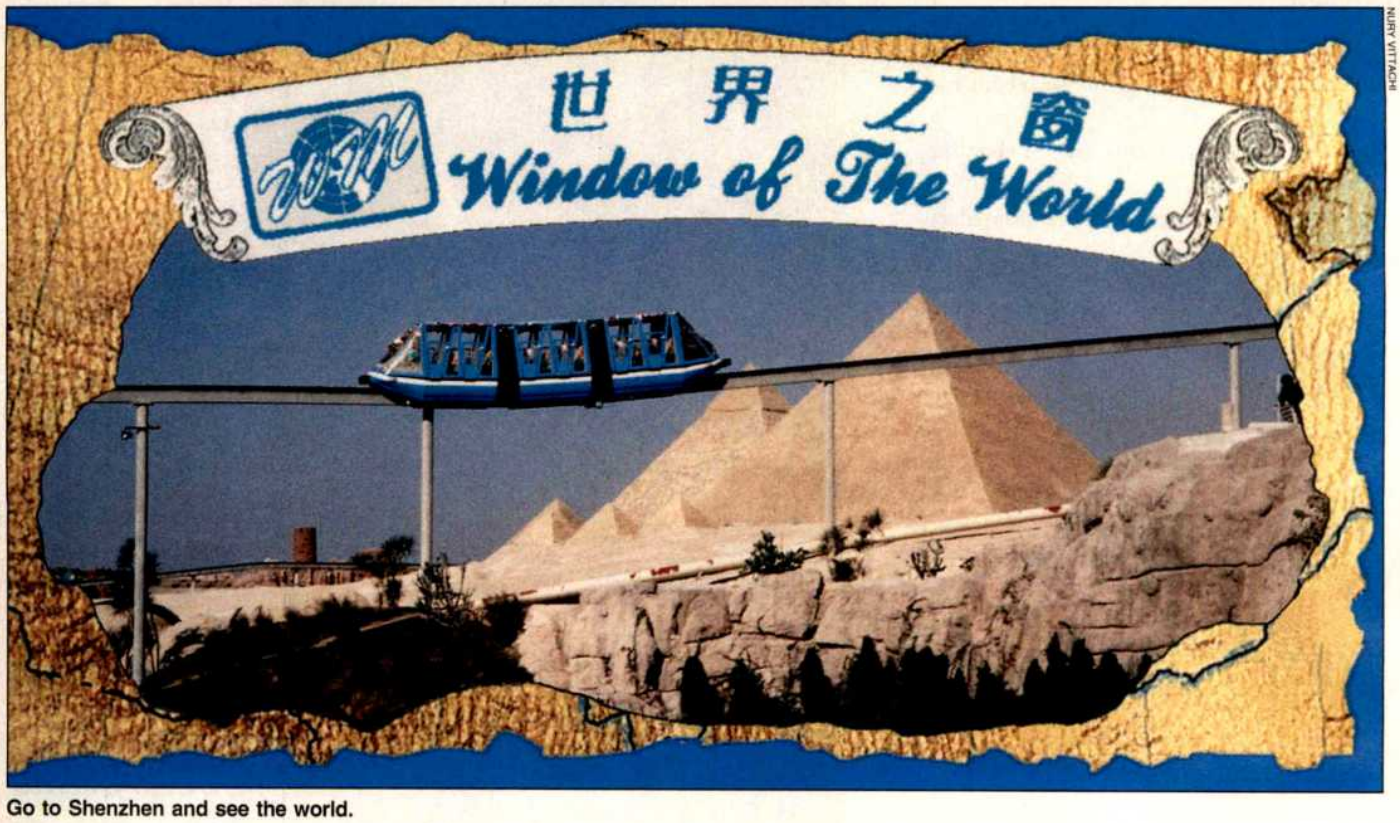


NURY VITTACHI

Go to Shenzhen and see the world.

TOURISM

Global Village

Surreal Shenzhen brings the world's wonders to China

By Nury Vittachi

Just across the Hong Kong-China border, the bustling city of Shenzhen teems with drinking, prostitution, illicit deal-making, gambling, corruption and theft. And that's just in the lobby of your hotel.

Outside, it gets racy. A Frenchman in our party instinctively flashed his suave smile at a young woman who made eyes at him. She assumed she had been hired as an escort and flew to his side — where she fused herself with his left arm, despite the fact that neither knew the other's language. Two hours later, a $25 tip pried her away.

Taxi drivers' main money-making activity is pretending to have no change — even when offered a small-denomination Chinese banknote. Counterfeit music CDs are passe; street-vendors now offer the latest CD-ROM computer software.

Shenzhen is a surreal city with a carnival-like atmosphere. It has the money-oriented boom-town feel of its archetypal capitalist neighbour, Hong Kong. Yet officially it remains a communist city. Some residents wear Mao jackets and ride bicycles to work, passing massive posters of supreme leader Deng Xiaoping.

Business thrives; the city is deemed a special economic zone, one of several set up by Beijing to experiment with capitalist methods. But entrepreneurs who do business here must adapt to Chinese ways. Visiting deal-makers find every lunch and dinner conducted formally in karaoke restaurants. To the uninitiated, these places are straight out of Dante's Inferno, networks of chambers filled with howling people. A European who has just set up a joint venture in the city was dismayed to realize that business will grind to a halt over the impending Lunar New Year holiday, starting on January 31. "You mean we have just hired all these people and we have to immediately give them *up to three weeks* off?" His interpreter nodded serenely.

The city, peppered with half-built skyscrapers, is a town in transition. Two decades ago it was quiet, rural farmland. By the end of the century, it will be a sprawl of jostling, wall-to-wall skyscrapers indistinguishable from Hong Kong.

For the moment, though, there's an uncomfortable disjointedness about Shenzhen. It's like an interstate bus station that suddenly evolved into a city of 4 million people. Despite being wedged between the rest of Guangdong province and Hong Kong, two Cantonese-speaking areas, Mandarin is widely spoken here, a sign of its "frontier" spirit. The many migrants and business people working or passing through Shenzhen typically use Mandarin to communicate. When that fails, locals automatically grab paper and pencil to jot down their message — Chinese characters are the same regardless of the spoken dialect. Some even try to communicate with foreigners this way, not realizing that languages outside China are written differently.

Ah-Ying, a 20-year-old drifter from Guangzhou, the provincial capital, moved to Shenzhen to work as a prostitute to get rich. "I don't like the job, but I like the money," she says. She's looking forward to leaving China one day. "Shenzhen is good, but Hong Kong is better."

Wages in Shenzhen are about $4-5 a day, though locals who regularly have contact with outsiders earn much more. A Shenzhen police survey in August found several beggars earning $35-40 a day, placing them among the city's top earners. Prostitutes ask for $90 a "session," although there's such a glut of them that locals or good negotiators can bargain them down to $38 as the night wears on. Patrons, however, risk six months in re-education camps if caught.

Perhaps the most curious aspect of the new Shenzhen is the rash of bizarre theme parks that have sprung up on the city's outskirts. "Like Disneyland on drugs," growled a businessman from Chicago, hurrying past the entrance to an amusement centre.

At Window of the World, Chinese architects have rebuilt the wonders of the world. And not just a paltry seven of them. Laid out on a 480,000-square-metre site are the 118 best sites in the world outside China. The models vary in scale from a realistic Eiffel Tower (at 108 metres tall, it's one third the size of the real thing), to a model of a Kenyan safari park, complete with thousands of animals — each about 20 centimetres high.

The project's chief architect, Ren Huanzhang, has conveniently rearranged the world in the way it might have evolved had God employed an experienced tourist guide. In the section labelled The Americas, for instance, the big lump of rock whereon you find the Mount Rushmore carvings of American presidents becomes that other popular lump of rock, the Grand Canyon, which, in turn, becomes Niagara Falls. So much more convenient. France's Arc de Triomphe is where it should be, alongside the Eiffel Tower. Perhaps the strangest incongruity is the futuristic Disneyland-style monorail strung in the sky over the pyramids and the Sphinx, lending the scene the air of a science-fiction movie.

When the park opened in the summer of 1994, its builders had lovingly recreated lower Manhattan — but without a Statue of Liberty. One was subsequently added, though the decision was a "subject for debate," says a Beijing-born travel guide who had been a hotel-management major at an American university. So far the statue has fomented no revolutions in southern China.

The park was built by China Travel Service and other government-related companies for $60 million in just two years. Officials report 10,000 visitors a day on average, with a total of 2 million in the first six months, mainly Chinese citizens. (Most of them have to make do with the park, anyway, because China's restrictive outbound-visa rules prohibit them from seeing the real world.)

NURY VITTACHI

New York in South China. *Below*: Shenzhen has been transformed into a sprawl of skyscrapers.

GREG GIRARD

The admission price is $23 for outsiders, or half that for Chinese citizens. Despite Beijing's insistence that "compatriots" from Taiwan and Hong Kong are indivisibly part of the family of China, they are counted as foreigners when it comes to paying marked-up ticket prices.

Visitors are often surprised to find the park's gift shops filled with genuine, licensed goods featuring Mickey Mouse, Roadrunner, Batman and other American cultural icons. In spite of the seeming incongruity, most such goods, though Western in flavour, are made in southern China and presented as local products.

There are no fewer than three other parks to visit, making Shenzhen China's Florida. One, Splendid China, sits next to Window of the World. This quaintly named theme park features miniature versions of the wonders of China. Some lose a bit of their majesty in miniature: the Great Wall, for example, is reduced to a pebble parapet.

The nearby China Folk Culture Villages features 24 life-sized "villages" from the country's minority nationalities. Genuine Tibetans, Mongols, Miaos, Uygurs, Was, Dais, Dongs, Gaohans and others entertain visitors with their homespun dancing and music. In the evening, a laser-beam show dazzles the audience — although it's not clear which Chinese tribe claims to have originated these lights in the sky.

Some displays are highly realistic. British visitors were upset that a group of Kazak mountain rams were kept on uncomfortably short leashes — until the rams looked up from their grazing and gave an electronic "baa-aa-aa," betraying their electromechanical innards.

It's doubtful that China's replica theme parks can be successfully transplanted to the West. A copy of the Splendid China park opened in Florida, near Orlando's Disneyworld, in December 1993, but had a quiet first year. Reports say only about 700 to 1,000 visitors a day entered during the high summer season, compared to almost 33,000 a day in the Magic Kingdom, a nearby Disney attraction of the same size.

Western-style parks transplanted to China enjoy greater success. Shenzhen's fourth centre is the popular Honey Lake Resort, a traditional amusement park featuring spectacular rides, such as an extra-long roller-coaster.

Shenzhen's municipal authorities last year said foreigners on pre-booked group tours could enter from Hong Kong without visas. Visas are normally obtained in Hong Kong through a process that takes about two days and costs $20 for a single entry. Travel agents believe visa-free entry might be extended to individual foreigners before the end of this year.

The wonders of the world have found their way to south China; now, authorities want world citizens to find their way there, too. French male visitors, please note: Wink at pretty girls at your own risk. ■

Nury Vittachi is the REVIEW's senior writer.

BOOKS

Breaking Water

Yangtze! Yangtze! *by Dai Qing.*
Earthscan Publications Limited, 120 Pentonville Road, London. £12.95.
Damming The Three Gorges: A Critique of the Three Gorges Water Control Project Feasibility Study, second edition *edited by Margaret Barber and Grainne Ryder.*
Earthscan Publications Limited. £12.95.

If romance still clings to the Yangtze River, it is now being dispelled by the controversy over the Three Gorges Dam. Not that the Yangtze gorges are as awesome now as they were before the 1950s, when the largest rocks were dynamited and the most dangerous passages made safe for navigation. All the same, for many Chinese, references to the gorges are more likely to conjure up the "myriad layered mountains" of Li Bo's famous poem on the river than a towering concrete complex of spillways, locks and sluices.

For the millions who live on its banks, the Yangtze is their livelihood as well. It is this divergence between what the river means to them, and the technical abstraction in the minds of engineers and planners, that keeps the controversy simmering. Sun Yat-sen first raised the idea of building a dam in the 1920s. Water management had long preoccupied China's rulers, but modern hydraulic technology made it possible to end the regular flooding in the middle and lower stretches of the river once and for all.

China's unstable political conditions in the subsequent decades stalled progress, however, and the proposal lay dormant until the Yangtze floods of 1954. It was then concluded that to justify such an expensive project, the river should be harnessed for power generation as well. Still the project never left the drawing board. In the 1970s, the Gezhouba Dam at Yichang, downstream from the proposed Three Gorges Dam site, was constructed, a pilot for the larger one to follow.

Nevertheless, there was opposition to the larger dam. Apart from scepticism about its benefits, a new concern emerged: In the early Deng Xiaoping era, economic reform and undisciplined industrial development were causing severe degradation of the environment, a process that the building of the dam would only aggravate. For the past decade, the project was mired in the deliberations of the working groups, committees, consortiums from the United States and Canada, and the various Chinese Government departments charged with reporting on the feasibility of the dam.

The two books reviewed here summarize the arguments against the dam. *Yangtze! Yangtze!*, first published in Chinese, is a collection of interviews edited by Dai Qing, who was later imprisoned for her pains. The other, issued by Probe International, an independent Canadian environmental-research organization, comments on a Canadian Government- and World Bank-funded study that recommend that a dam be built. Probe International found the study flawed in several respects.

XINHUA

The Yangtze: now, a battleground.

The voices in opposition reached a crescendo at the spring 1989 session of the Chinese National People's Congress, when hundreds of delegates successfully forced the postponement of the dam into the next century. Some of the contributors to these two books believe that the dam's critics were partly responsible for hardening the attitude of China's leaders against spontaneous expressions of "people power" — a sclerosis that led up to the crushing of the Tiananmen protests in June that year.

On April 3, 1993, the dam project was approved by a two-thirds vote in the National People's Congress. Since then, critics have continued to mobilize support on the international front, since dissent will only be suppressed in China itself.

A second edition of *Damming the Three Gorges* has now appeared. In its second chapter, "What Dam Builders Don't Want You to Know," the opposition experts take issue with the assumptions and conclusions of the Canadian consultants, condemning them as "inadequate, misleading and irresponsible because they neglected the inevitable social and environmental disruption which the dam would cause." They argue convincingly that rising waters will displace up to 1.2 million people and submerge 104 towns. An estimated 108 cultural sites will be lost, not to mention the impact on downstream lakes and wetlands that are the sources of productive fisheries and the habitat of rare wildfowl.

The Three Gorges Dam has become a battleground between those who dare to speak against the government and an authoritarian regime that still believes that such massive monuments to socialism will enhance its authority. Site-preparation work has started.

But the battle may not yet be lost. The Chinese Government has to raise the money from world capital markets, and completion of the dam is expected to take 18 years. A lot can happen in that time.

■ **May Holdsworth**

May Holdsworth is a writer based in Hong Kong.

Chaebol Chat

Making Capitalism: The Social and Cultural Construction of a South Korean Conglomerate *by Roger Janelli with Dawnhee Yim.*
Stanford University Press, Stanford, California. $39.50.

In this fascinating book, Roger Janelli turns away from the traditional Korean villages that he had investigated in his early work to look into the head offices of a contemporary Korean *chaebol*.

Through participant observation, Janelli examined the beliefs and attitudes expressed by white-collar employees and the personal interaction among people of various ranks within the organization. His objective was to understand the culturally informed choices by which the industrial elite and new middle class have, in the course of leading South Korea's industrialization, struggled to advance their own respective interests.

Janelli initially intended to evaluate whether the practices followed in a modern South Korean conglomerate were more consistent with traditional culture, a profit orientation or a combination of both. Early in his fieldwork, however, it became evi-

dent that the most impressive patterns that he was observing could not be explained in terms of traditional or contemporary Korean culture or in terms of modern economic rationality.

In particular, he noticed the absence of any visible indications of interpersonal conflict. He eventually learned that this apparent harmony was the result of an extensive socialization process, and the constant effort of employees to maintain harmonious relations among co-workers with whom they expected to spend most of their working lives. Second, Janelli noticed in the pervasiveness of hierarchy interpersonal relations and work processes.

Janelli interprets the harmony-within-hierarchy pattern as a key manifestation of an encompassing system of control. The chapters reporting his observations describe the norms and practices instituted by owners and top managers to maintain and exercise control, and the responses to that system by white-collar workers in subordinate positions.

Drawing on his previous work on Korean folk culture, Janelli argues that patterns in the modern workplace are not analogous to traditional Confucian ideals or to patterns of interpersonal relations within the family or among inhabitants of the same village. Instead, he argues, employees, who are often critical of the hierarchical system, are correct when they claim that workplace norms correspond more closely to authoritarian hierarchical patterns that prevail in the military.

Top managers and their subordinates must follow cumbersome practices to maintain the harmony-within-hierarchy pattern. Though this requires the expenditure of much time and money, if the outcomes are evaluated from a rationalist perspective, it is hard to understand why they continue to make the effort.

The material presented here amply demonstrates how company policies create an operating system that is rigid and inefficient, and a work force that is often frustrated and resentful. Though these patterns may not be analogous to traditional family or village relationships, they attest to the abiding strength of a set of norms and values that make it difficult for Korean firms to abandon practices that have seemingly lost their usefulness.

One caution: Given the extremely impressive performance of the Korean economy, and in particular of the leading chaebol, it is not reasonable to conclude that the seemingly "irrational" patterns observed in large Korean firms seriously undermine their economic performance.

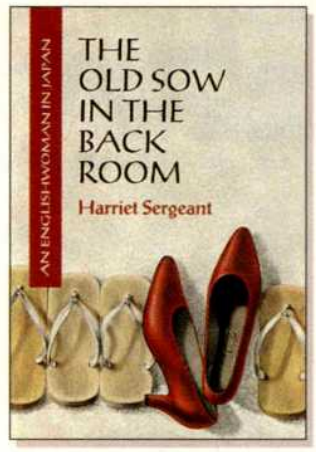
■ **Ron Rodgers**

Ron Rodgers teaches organizational behaviour at the National University of Singapore.

Stalking the Real Japan

The Old Sow in the Back Room
by Harriet Sergeant.
John Murray, 50 Albemarle St., London. £17.99.

It is a shame that Harriet Sergeant didn't meet Bernard Shaw in Japan. The place apparently irritated the playwright so much that he refused to remove his shoes before entering a Japanese dwelling. Sergeant, too, found much to ruffle her Western liberal sensibilities during her six-year stay in Tokyo. In her own words, her life took on the characteristics of siege warfare, as she sought to penetrate the barriers that the Japanese build around themselves and their culture.



After settling in to the "Holland Park of Tokyo" with her banker husband and infant daughter, she begins railing against the order of a country where "window cleaners wore white gloves, taxi drivers refused tips and dog s*** was collected even as it fell." She decides to find the chinks in the samurai suit of armour.

The line-up of books that attempt to "de-cherry blossom" Japan can be measured in metres on library shelves, yet it is rare to find a writer who can take in the character of Japan and describe it as it really is, without twisting the facts to fit a theory, and without personal prejudice. Isabella Bird, Rudyard Kipling and Lafcadio Hearn are such travel writers. Harriet Sergeant is not.

Still, the lady has *chutzpah*. Deciding that charity work will help improve her Japanese, she works as a volunteer at a hostel in a poor Tokyo district. Here she encounters the social problems that this homogeneous country is not supposed to have — abused children, the unemployed, lonely old people, the *burakumin*, or untouchable class, and former comfort women.

Not content with the lessons of the daylight hours, Sergeant also prowls around the "sexual Disneyland" that is Tokyo at night with her faithful girlfriend, Midori, unearthing Ginza bar hostesses and gangsters to help her understand the real Japan. The problem is, the real Japan is watching TV in a cramped ferro-concrete apartment, at least an hour and a half from where it has to be at 7:30 the next morning. It is not in an expensive bar in the Ginza.

We learn more about Japan when Sergeant is going about the normal tasks of being a wife and mother than when she is out on the town in search of adventure, and one regrets that there are not more descriptions of daily life. There is a very funny moment when, just as she is being shuffled on to the delivery table to give birth to her second child, everything stops because she is wearing the wrong slippers for the delivery room. One can also imagine the spectacle of her as the only mother in fancy dress at the local kindergarten's picnic, or being studied in the bath house by the wives of her husband's colleagues to ensure that she observes the correct bathing rituals.

The hidden agenda of *The Old Sow* is to remind us that Japanese women are downtrodden by beastly Japanese men. The title refers to an obsolete phrase, *zashiki buta*, which describes an idle wife. By the end of page one, we learn that "Men . . . led a delightful existence in Japan." Long-suffering women dot the anecdotes, and one particularly mean husband goes as far as to have a debilitating cerebral haemorrhage to spite his wife.

In search of strong-willed, independent women, Sergeant meets the mama-san of a Ginza bar, and is disappointed to find that "she was in thrall to a system that suppresses individuality and, apart from an extraordinary ability to flatter, her mind was as pedestrian as her job." It is odd that this should come as a surprise. What is surprising is that, during her stay in Japan, Sergeant does not discover that the supposedly fantastical night life enjoyed by Japanese men is far from enjoyable for most salarymen, and is as regimented as every other aspect of their lives.

This is not a sympathetic look at Japan. The contempt for people who live by the system instead of fighting it is only thinly disguised. Sergeant is incredulous that Midori, dumped by her foreign boyfriend and no longer a Christmas cake — best consumed by her 25th birthday — gives in to social pressure and marries a Japanese salaryman who lives in a concrete apartment block.

Perhaps more sympathy for her characters would have led to a better understanding of the Japanese mind. Instead, *The Old Sow in the Back Room* offers little insight. It is a collection of curiosities, rather than an accurate portrayal of modern Japan.

■ **Gabrielle Russell**

Gabrielle Russell is a writer based in Tokyo.

REVIEW GRAPHIC/RAY LEUNG PHOTO: TIM DAVIS/PRO-FILE

Mexico's currency crisis gave Asian equity markets the jitters: Most were down in the two weeks to January 14.

FINANCE

Bear With Us

When Mexico's peso plunged recently, Asian currencies felt the ripple. The result: higher costs of capital when markets can least afford it.

By Gary Silverman in Hong Kong with Gordon Fairclough in Bangkok, Hamish McDonald in New Delhi and bureau reports

Mexico is costing Asia money. In a curiously delayed reaction to Mexico's shock devaluation of the peso on December 20, global fund managers began in January to pull money out of Southeast Asian currencies and markets in search of safer havens — most notably the Japanese yen.

The result was weakening currencies and sliding share prices in Hong Kong, Thailand, Malaysia, Singapore, the Philippines and Indonesia. To be sure, the currency falls were meagre by the standards of Mexico's 30% plunge. And foreign-exchange traders say monetary authorities in the region quickly gained the upper hand against speculators — if there were many to begin with.

But containment could prove costly. To defend their currencies, monetary authorities pushed up interest rates. Hong Kong's Monetary Authority, for example, sucked so much cash out of the banking system that the cost of overnight money soared at one point to 13% from just 5% the day before.

"If we have a concern, it's not that currencies will be devalued, but that interest rates will stay high and stay stuck up there longer than originally anticipated," says Enzio von Pfeil, chief regional economist at S.G. Warburg Securities. "The gain will be the predictability of the exchange-rate environment. The pain will be high interest rates."

The timing could hardly have been worse. Interest rates in Hong Kong and other Southeast Asian countries were already rising to keep pace with U.S. increases, and share markets were reeling as a result. Hong Kong was in particular dire straits — with concerns growing about the outlook for property prices and Chinese leader Deng Xiaoping.

Now, the spectre of Mexico is raising the cost of capital in emerging markets at a time of increasing competition for capital. Simply put, Mexico made foreign investors even more conscious of the risks emerging markets pose — after the devaluation, Mexico's market was down nearly 50% at one point in U.S. dollar terms — and they want to be compensated for future gambles.

"The risk tolerance has been lowered across all emerging markets, and people are naive to think it will be over immediately," says Keith Ferguson, chief regional economist at Barclays de Zoete Wedd (Asia). "The panic is over; the crisis is not."

The question now is how prolonged this crisis will be. And there are optimists. Andrew Freris, chief regional economist at Salomon Brothers, predicts the impact on interest rates could dissipate in a month, barring future shocks. "Indisputedly, there was a herd instinct," he says. "People were getting the jitters." Regional leaders agree. "The Mexican matter shouldn't arise," says Datuk Seri Anwar Ibrahim, Malaysia's deputy prime minister and finance minister. "Here it's a totally different situation."

But in financial markets, perception is reality. And the Mexican crisis has demonstrated how closely linked all the "emerging markets" have become — at least in the eyes of fund managers.

There is a danger in this perception;

the term "emerging markets" itself is fuzzy. Usually it refers to markets in less well-off countries, but not always. For example, Hong Kong, which has a higher per capita income than some West European countries, is nonetheless included in many emerging-markets portfolios and is now suffering from the comparison to Mexico.

And it was difficult to see why Mexico's problems alone should have prompted traders to sell currencies like the Singapore dollar. When Mexico devalued the peso, its current-account deficit was enormous and its foreign reserves were running low. Singapore, conversely, has a current-account surplus — and more than $50 billion in reserves.

"Mexico and Singapore — that's ridiculous," says William Kaye, managing partner of the Asian Hedge Fund. "There are more similarities between Singapore and Switzerland than there are between Singapore and Mexico."

Of course, there are grounds for currency concerns in Asia. Mexico went into the crisis with a huge current-account deficit and a currency linked to the U.S. dollar. Similar conditions exist in Asia. Like Mexico, the Philippines, Indonesia, Malaysia and Thailand all run current-account deficits and depend on foreign investment to finance the shortfall.

But one lesson of the current furore is that not all current-account deficits are created equal. Mexico sold paper to foreign investors to finance its shortfall and used the proceeds to finance a consumer binge. In Asia, foreign direct investment makes up more of the gap, says Guonan Ma, regional economist at Peregrine Brokerage. By its very nature, direct investment in plant and equipment is less subject to changes in sentiment than the short-term flows upon which Mexico depends.

And in a rapidly growing economy, a current-account deficit is not always such a bad thing. In Thailand, for example, the shortfall is created by the very investment that finances it, says Scott Christensen, an analyst with Jardine Fleming Thanakom Securities in Bangkok.

It works like this: Thai savings cannot cover the investment needs of a domestic economy growing at 8% a year. Foreign capital fills the gap, but this foreign investment creates demand for more foreign capital goods — which account for about 50% of imports. If foreign investment dried up, so would demand for the imported capital goods — and much of the trade and current-account deficits.

"The fundamentals in Thailand are very good in terms of reserves and the central bank's ability to defend the currency," says Clifford C.H. Tan, vice-president of global economic research at Bankers Trust in Hong Kong.

Similarly, Freris says worries about Indonesia's debt-service ratio — the percentage of exports need to cover foreign debts — were also overstated. Although high at 32%, Freris noted that the ratio is lower than Mexico's and has remained stable for about four years without triggering major worries.

For its part, Hong Kong doesn't release a current-account figure, but economists generally calculate that it's running a surplus. However, the Hong Kong dollar has come under pressure because it is pegged at 7.8 to the U.S. dollar, give or take one percent. And after Mexico all pegs are worrisome.

Nonetheless, Hong Kong's defences are formidable. It sits on $43 billion in foreign reserves, and its Monetary Authority already has demonstrated it will push up interest rates to prevent excess volatility — even when the currency is still trading on the strong side of the peg.

"Those who are going short on the Hong Kong dollar will have to pay a price for it," says Joseph Yam, chief executive of the Monetary Authority.

But hedge-fund managers like Kaye say the Hong Kong dollar remains vulnerable. They question whether Hong Kong will be able to keep interest rates high for long, given the current weakness in its stock and property markets, and suggest Chinese objections might prevent Hong Kong from spending all its reserves to protect the currency.

Moreover, the Hong Kong dollar is easier to short than other currencies in the region, fund managers say. One of the ironies of global finance is that central bankers are more powerful in less-developed markets. Because their currencies are less international, they are better positioned to fight speculation.

"It's hard to mount a speculative attack against any of these currencies given that the administrative control is still rather high," says Elizabeth Tran, chief investment director at IDS Fund Management. "To short any of these currencies, you need bank lines."

Last year, when speculators bet that the Malaysian ringgit would appreciate, Bank Negara, the Malaysian central bank, waged a punishing battle to retain control of the currency, imposing a series of capital controls, including negative interest rates, to raise costs for speculators.

Tight capital controls also leave little opportunity for foreigners to speculate on currencies in countries like China, Vietnam, India and even South Korea. But Mexico could have a major impact in these countries as well: Its devaluation debacle is hardly an advertisement for greater liberalization.

This could prove especially important in India, where officials are studying the Mexican crisis for possible parallels with its reform process (so far they've stopped short of making the rupee convertible for capital movements).

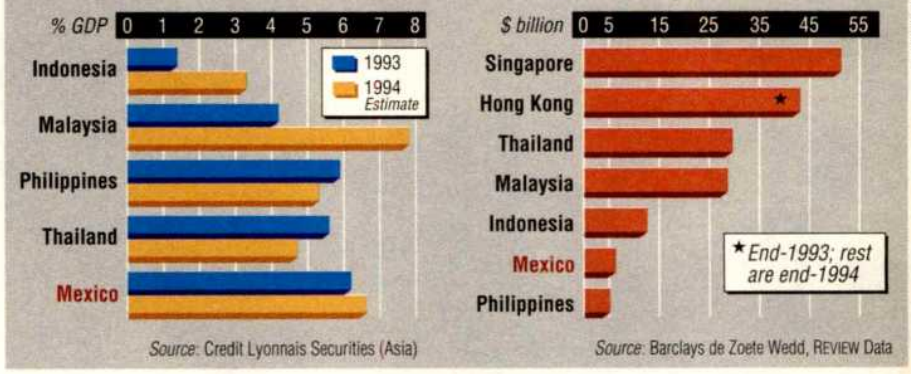
In any case, the longer-term effect of the Mexican crisis in Asia will be felt in stockmarkets and real economies. And bears like Regent Fund Management's managing director, Peter Everington, suggest higher costs of capital promise more bad news. He's predicting Hong Kong's Hang Seng Index will drop as low as 4,000.

But other fund managers are beginning to see buying opportunities. Graham Muirhead, director of HSBC Asset Management, notes that company directors in Hong Kong have stepped up buying of their own shares in the last three weeks — usually a bullish sign.

"Maybe Asia will benefit as people distinguish between countries. Maybe more emerging-markets money will come here," he says. "We believe that the first quarter of this year will see the worst, and we are starting to become more aggressive." ■

See Any Resemblance?

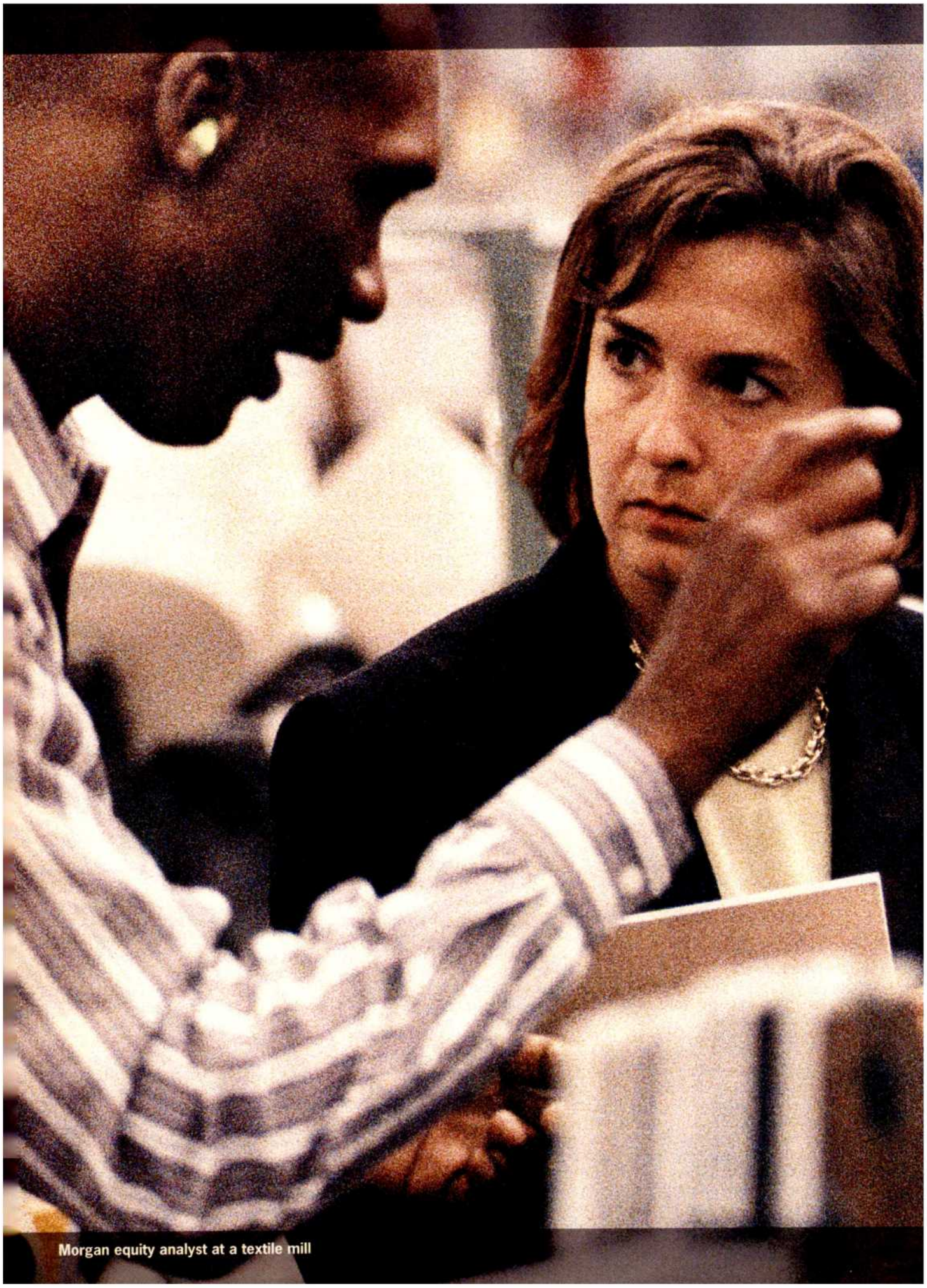
As in Mexico, current-account deficits are high in much of Southeast Asia *(left chart)*. But in Asia, imports fund investment, not consumption, and foreign-exchange reserves are high *(right chart)*.



Source: Credit Lyonnais Securities (Asia)

Source: Barclays de Zoete Wedd, REVIEW Data

REVIEW GRAPHIC/RAY LEUNG, SIMON WONG



Morgan equity analyst at a textile mill

Insight

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TRADE

Plastic Explosive

Singapore complains to WTO about Malaysia

By S. Jayasankaran in Kuala Lumpur

The Association of Southeast Asian Nations, or Asean, likes to think of itself as a family. As such, its members prefer to settle disputes among themselves; airing dirty laundry in public is something *others* do.

So imagine the shock in Kuala Lumpur when Singapore formally complained to the World Trade Organization that it's being hurt by Malaysia's restrictions on imports of plastic resins. To describe Singapore's move as unprecedented is putting it mildly. "In Asean, disputes like these are normally resolved on a bilateral basis," growls a senior official from Malaysia's Ministry of International Trade and Industry.

There are other ironies. The WTO, the successor to Gatt, opened for business in Geneva only on January 1. The Singapore case may be the first dispute it takes up. Moreover, Gatt complaints were normally between developing and developed countries. Says the Malaysian trade official: "This is between two developing countries. It's quite embarrassing really."

Malaysia has nevertheless vowed to defend itself. At issue is Kuala Lumpur's move in April to restrict imports of polyethylene and polypropylene (resins used to make plastics) by requiring all buyers to obtain import permits. Singapore provided more than half of Malaysia's imports of the two products in 1993.

The measure hit Singapore hard: Venu Gopala Menon, its deputy high commissioner in Malaysia, says that between April and November Singapore's resin exports to Malaysia dropped 44% compared with the same period a year ago.

Malaysia imposed the permits on its 1,000-odd plastics companies to protect its fledgling petrochemicals industry. The sole local producer of polyethylene is Titan, a Taiwanese-Malaysian petrochemicals plant that opened in Malaysia's southern Johor state in 1991; it's also one of only two local producers of polypropylene. At $900 million, the plant's cost represents the largest investment in petrochemicals in the country. The Malaysian partner, which holds 30% of the company, is the state-owned National Equity Corp.

The government initially protected Titan by imposing a 30% duty on resin imports. But other polyethylene suppliers were competitive and Malaysian plastics makers were free to buy from them. Not surprisingly, Titan suffered. So the Malaysian Government tried a non-tariff barrier — the import permit. In addition it decreed that all permit applications must be accompanied by a "no-objection" letter from Titan.

The plastics makers were furious. They complained that Titan was dragging its feet on issuing the letters, and was raising its own resin prices at the same time. Worse, shortly after the permit requirement was introduced, world resin prices began rising. Deprived of ready sources of raw material from their traditional suppliers and faced with rising costs, at least 10 Malaysian plastics-makers folded.

The government took notice. The plastics industry is big business in Malaysia: 1994 sales were over M$2.1 billion ($810 million). Kuala Lumpur agreed to speed up import-permit applications and said it would issue no-objection letters if Titan did not reply within five days.

"The situation now is much better," an official from the Malaysian Plastic Manufacturers' Association says. "But it could be even better if Titan drops its prices."

Between April and August, the company raised polypropylene prices by two thirds, to M$2,500 a tonne. But given the continuing 30% tariff on resins, Titan's products are still competitively priced compared with imports.

Singapore fared less well. Petrochemicals are a major source of income — accounting for about 4% of GDP in 1993 — and Malaysia was its traditional market. In addition to being just a phone call away, Singapore exporters provided other benefits for their Malaysian customers. They bore the cost of freight and generally offered 90 days credit as well (Titan, by comparison, required cash up front).

Little wonder, then, that the Malaysian action has brought such a strong response from Singapore. "We are seriously concerned that it could cause material damage to our petrochemicals industry," a Singaporean trade spokesman told Reuters. He said the appeal to the WTO was a "last resort after repeated attempts last year failed to resolve the issue."

Malaysia's international trade and industry minister, Datuk Seri Rafidah Aziz, said in a statement that Malaysia had given Singapore several explanations on the matter; the import permits, moreover, were a temporary measure. She also noted that the restrictions cover all imports of resins, not just those from Singapore. ■

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You First

Japan's big car makers remain wary of China

By Henny Sender in Tokyo and Hong Kong

China didn't have to worry about no-shows when it invited the world's auto makers to its first family-car convention in November. All the top names were there — 22 companies in all, from Porsche to Ford to Toyota — displaying their ideas for a low-cost, fuel-efficient car for China's masses. And angling for the right to build it: Beijing is expected to decide by 1996 who will do so.

No wonder there's such interest. At stake is perhaps the last great prize among world car markets, and it's still in its infancy. China's per-capita car ownership is but a fraction of that elsewhere in Asia *(see chart)*.

In 1993, China produced 1.3 million vehicles, of which a mere 230,000 were cars. Beijing forecasts sales of 3 million annually by 2000 (a figure Toyota, for one, regards as conservative), and that doesn't include the mooted family car.

But if China is so alluring, where are the Japanese? After all, Japan has what is arguably the world's most competitive car industry, and China's enormous market is right on its doorstep. Yet while others plunge headlong into the Middle Kingdom, the Japanese prefer exporting there, not building factories; striking technology deals, not injecting capital. Meanwhile, Germany's Volkswagen has taken a commanding lead.

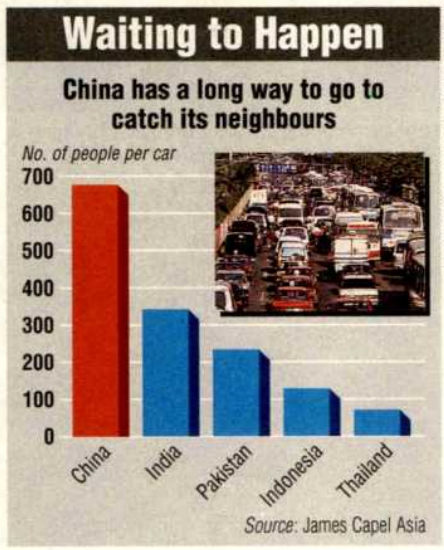
Japanese makers' low China profile reflects broader concerns about the country's investment environment. Indeed, the few significant investments they have made seem to prove the case for caution. For example, Mabuchi Motors' $144 million factory in Dalian, which makes tiny motors used in car components, has witnessed sporadic labour unrest with anti-Japanese undertones.

But spasms of anti-Japanese sentiment are less of a problem than what Japanese car makers consider to be unreasonable demands by the Chinese. While some foreign operations such as Volkswagen are now extremely profitable, getting there was a long, rough road. China's stubborn negotiators don't make things any easier, foreign car makers say.

Toyota, for instance, has been talking to the Chinese for a decade, trying to modify investment terms that it believes make no commercial sense. Though Beijing has shown signs recently of softening its position, it has long been pressing Toyota to build an auto plant with Chinese characteristics — a cross between one of China's mammoth state enterprises and the massive Toyota City complex near Nagoya. Beijing wants more than a factory; it has tried to get Toyota to build a community with schools, hospitals, and of course, roads.

Economic and legal uncertainties are another deterrent. It typically takes 10 years to make a large car plant profitable, and that's a long time amid China's many uncertainties.

"Because Toyota is so big, the Chinese expectations of Toyota were large in scale," says Akira Yokoi, Toyota's board member responsible for Asia. "But because the period for a return on our investment is long, we need a more solid foundation, including well-defined policies from Beijing, a legal framework and internationally trusted practice."



REVIEW GRAPHIC/RAY LEUNG PHOTO: SINOPIX

Some observers think Toyota and others are hesitant for political reasons, too, figuring the car firms would rather wait to see what happens after Deng Xiaoping dies. Yokoi, for one, denies it.

Also important, but harder to measure, is the history of mistrust between the two nations. Ten years ago, China was the second-largest export market for Japanese car makers (after the United States). Then Beijing decided the Japanese were getting too much of a good deal — once again exploiting the Chinese. Several Japanese firms became the target of hostile sentiment.

One, Mitsubishi Motors, was doing brisk business selling trucks, until Beijing charged it with selling defective vehicles to state enterprises. Mitsubishi claimed the trucks were overloaded and driven over poor roads. Nevertheless, it paid compensation.

Even today, the Japanese find many investment terms distasteful. The Chinese long to strengthen their domestic car industry, and will let foreigners in on condition they contribute to this goal. But Beijing wants newcomers to enter joint ventures in which they have less than 50% control but 100% willingness to transfer technology. In addition, car makers must meet a strict schedule of rising local-content ratios.

There's a constant tug-of-war over technology transfer. "They ask for state-of-the-art equipment for assembly, but the supporting components industry is at a very low level," complains Minoru Nakamura, in charge of Asia for Nissan Motor. "There is a big gap between the foreign assemblers and the local parts people. There are so many contradictions at the factory. The machinery doesn't match; the output of the old equipment is 1,000 but the newer equipment for another task makes 10,000."

Existing ventures endure frequent arguments about equipment, say industry sources. "Why do they need a robot for welding?" asks an executive at a major Japanese trading company that distributes cars in China. "They just insist on all this advanced equipment," says the executive, even though less costly methods will do the job.

Furthermore, the Japanese doubt whether the Chinese can muster the workshop discipline a Toyota or Mazda expects. "The biggest headache is the individuality," says the executive. "They can hand-manufacture, but the mass-production style, the same quality level . . . it's difficult to standardize."

And while China is supposedly moving towards a market economy, the hand of state planning rests heavily on the car industry. That's partly because Beijing is eager to consolidate; the industry currently comprises between 125 and 180 major assemblers (depending on who's counting) and thousands of component makers, virtually all of them woefully inefficient.

Though Japan's industrial muscle also owed much to government guidance, its Ministry of International Trade and Industry was never as intrusive as Beijing appears to be in driving rationalization, says Nissan's Nakamura. That intrusiveness means headaches for the Japanese companies, particularly as the Chinese want them to push their suppliers into joint ventures in China. "They asked us to establish relations between our parts makers and their parts makers," notes Nakamura. "But it isn't up to us. All we can do is make the introductions."

Indeed, Nissan has had little autonomy

so far in deciding what its involvement in China would look like. The car maker recently announced it would supply parts for Nanjing Automotive Works' light commercial vehicles. But the initiative came from Beijing, not from Tokyo or even Nanjing. "It is still a one-party-controlled country," Nakamura says.

Whatever their reservations, Japanese car makers *have* managed to make money in China without getting their feet very wet. They are now China's leading source of car imports: 200,000 vehicles in 1993, making China the Japanese firms' fourth-largest sales destination.

But this strategy is already obsolete. Hoping to nurture a domestic car industry, Beijing is clamping down on imports and raising tariffs. If the Japanese want a greater piece of China's action, they will need to expand their manufacturing operations there and transfer more technology.

They will also have to steal market share from those who have built up a lead in their absence. Volkswagen, almost 10 years in China, is far ahead of everyone. "Ten years ago, to enter China was very cheap," says Shinji Shimahara, head of Toyota's China operations. "But nobody knew where the bus was going. In this sense, Volkswagen was very brave."

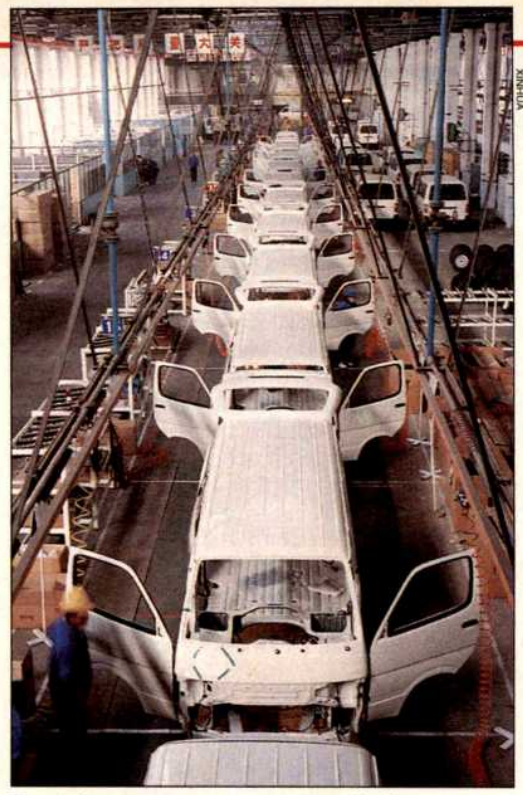
Today VW produces more than 100,000 vehicles annually in both Shanghai and Tianjin; the Santana sedans it makes in Shanghai accounted for about 45% of China's domestic car sales last year. Chasing VW are trailblazer Beijing Jeep, a Chrysler joint venture, and Peugeot Citroen, more than five years in Guangdong.

Still, despite the gap between them, the leery Japanese and the paranoid Chinese are finding some common ground. As they do so, more technical-supply agreements and more-ambitious projects should emerge. Toyota affiliate Koito already has a large operation in Shanghai that supplies parts to VW. Last year, other Toyota affiliates, including leading electronics-parts maker Nippondenso, also announced interest in investing in China.

Even so, Japanese involvement remains minimal. Toyota affiliate Daihatsu leads in terms of visibility and profits, supplying Tianjin Automotive with minivans and kits for Charade cars and minibuses. But it's the only Japanese car maker among China's so-called Big Three, Little Three auto-assembly joint ventures.

Suzuki relies on China for 10% of its profits, but its primary business is motorcycles, not cars. By contrast, Suzuki controls 80% of the Indian car market. "They have not been as aggressive [in China] as we expected," says Keith Donaldson, chief equity strategist for Salomon Brothers Asia in Tokyo.

Suzuki has a 35% stake in a joint venture with Changan Automobile, which builds the Alto. But annual production currently totals only 20,000-50,000 units. (Again, it depends who's counting: Suzuki claims it doesn't know for sure because the Chinese control all the data.)



XINHUA

Toyota's meagre presence: assembly line at Shenyang Jinbei Automotive.

GERHARD JÖRBEN

Shanghai Volkswagen factory: ahead of the pack.

Honda is probably the dominant motorcycle company in China, with about 20% of that market. It, too, has kept a low profile when it comes to four wheels, although in October it struck a deal with Dong Feng Motor. They plan to invest $20 million in a joint-venture parts plant in Guangdong.

Isuzu, meanwhile, has a 7.3% stake in Hong Kong-listed Qingling Motors, a mainland manufacturer that makes light commercial vans. "We are a bit cautious, but not as cautious as the others," says Hiromi Koyahata, a company spokesman. Nevertheless, Isuzu has no desire to enlarge its stake in Qingling. Current production is a mere 27,000 units, about half its capacity, but there are no immediate plans to increase output. "We need to improve facilities first," Koyahata says.

Mazda is hardly charging into China, either. Although it has exported to China for a decade, it was only in 1992 that the company took a 17.5% stake in a Hainan venture to produce commercial vehicles. Last year output totalled just 2,300 units, a scale that is "almost nothing compared to the size of our company," says Tetsu Owari, a Mazda spokesman.

In addition, in 1993, the company signed a licensing agreement with Fuzhou Solid Motors in southern China to produce pick-up trucks, a deal that involves a similarly low commitment of resources.

And Japan's presence may not be radically larger even five years from now. Toyota continues to negotiate over its production involvement in China, but has yet to make a single equity investment there. Its involvement has been largely confined to a technology licensing agreement with Shenyang Jinbei Automotive. Board member Yokoi doubts the company's output there will come to much more than 3% of the total 6 million vehicles it expects to make in 2000.

"There is a chance we will do something" with Tianjin Automotive or Shanghai Automotive, or both, he says. "But there is no chance that will come to 10% of our profits within five or even seven years."

As Yokoi notes, China has a long way to go before it's anything like a motorized society. Everything from its road system to its service network will have to be built or overhauled for car ownership to take off. To cite a minor but typical example of how far China has to go, it now takes six months for a Chinese to receive a driver's licence because the skill to repair as well as drive a car is a prerequisite.

Whatever the Japanese do, the competition will be severe. Toyota's Shimahara worries most about America's General Motors and Ford. And the Europeans are already on the road. The South Koreans, particularly Hyundai, are also mapping out strategies for China that rely on their proven ability to produce low-cost cars.

Still, Japanese car makers appear certain that someday, somehow, they will succeed in China. For one thing, says Toyota's Shimahara, China's car-industry officials "are not satisfied with their relations with the foreign car companies [already in China]. If they were satisfied with Volkswagen, they wouldn't be asking others" to come in once a moratorium on new factories ends in 1996, he argues. ■

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ECONOMIC MONITOR: JAPAN

Slowly but Surely

At long last even the sceptics seem convinced. Japan's economy is growing again after a three-year recession that saw the sharpest falls in industrial production and corporate profits since the 1973 oil crisis.

Still, the pace of recovery is dismally slow. Real GDP in the year ending in March will not reach the revised government forecast of 1.7% and could be as low as 1.1%, says Brian Rose, an economist at Daiwa Institute of Research. And while growth in fiscal 1995 may reach 2.2%, that will still leave production and profits far below their levels in mid-1991, the end of the last boom, Rose says.

Daiwa's forecasts are at the low end of the spectrum. But only a handful of private economists expect the government forecast of 2.8% growth for fiscal 1995 to be met. Corporate restructuring after the excesses of the late-1980s bubble, together with balance-sheet problems in the financial sector, "seem certain to constrain growth," says James Vestal, senior economist at Barclays de Zoete Wedd.

The good news is that income-tax cuts announced in early 1994 have produced a sharp turnaround in personal consumption. According to the government's Economic Planning Agency, consumption grew at an annual rate of 4.4% during the third quarter of 1994, contributing more than 60% of the GDP growth during the period.

Figures for October and November suggest consumers were still dipping into their pockets despite an unemployment rate of about 2.9%, high by Japanese standards. Department-store sales grew 0.1% in November — the first year-on-year rise for 33 months — while new car registrations rose 3.1% from a year earlier.

Strong personal consumption, combined with progress in cutting inventories, may explain why manufacturing profits picked up in mid-1994 after four years of decline. Even so, industry's profit picture isn't consistently bright. While profits at big manufacturers climbed 14.7% year-on-year in the six months to September, service-company profits fell 2.1%. Small manufacturers fared even worse, with a 21.3% drop.

This weakness among small manufacturers may be partly due to structural changes in the economy, says Fumihira Nishizaki, an economist at the Economic Planning Agency. Big firms have been shifting production and procurement out of Japan to low-cost bases in Asia to cope with the yen's sharp rise against the dollar. Companies that can't follow suit have faced both currency appreciation and, in some cases, the loss of big customers.

Weak capital investment is another sign that all is not yet well. Investment by large manufacturers in the July-September quarter fell 12.2% from a year earlier; among small manufacturers the drop was 24.6%. Surveys by the Bank of Japan, the central bank, suggest total investment by industry will fall 3% in the year ending in March. By comparison, in fiscal 1993, when profits and production also fell, investment declined 11.3%.

Keisuke Iwasaki, senior economist at Sanwa Research Institute, says the recovery will be tentative. But it may be enough to avoid heavy pump-priming by the public sector. Emergency spending on public works during this fiscal year has amounted to ¥4 trillion ($40 billion), or 0.6% of GDP, but similar spending appears unlikely in the year ahead. (Or at least it did until a strong earthquake hit Kobe on January 17. The quake caused major damage; rebuilding could provide a fillip for the construction industry.)

On the trade side, imports are growing strongly. During the first 11 months of 1994, they climbed 13% from a year earlier to $249.3 billion; exports rose 9% to $357.4 billion.

The value of exports, however, was boosted by currency effects. In volume terms, exports are growing far more slowly than imports. The U.S. dollar-denominated current-account surplus is likely to be little changed in the year to March at around $130 billion but is expected to start falling from fiscal 1995 onwards. ■ **Charles Smith**

Bad Math

Pakistan's budget shortfall brings on fiscal crisis

By Ahmed Rashid in Islamabad

They said it couldn't be done. Economists and industrialists alike predicted that Pakistan would never be able to raise the revenue required to fund the budget that Prime Minister Benazir Bhutto presented on June 9. At 385 billion rupees ($12.8 billion), it was fatter by one third over the previous year. Independent number-crunchers reasoned that the government was dreaming by relying on a new, unpopular 15% sales tax to fund increased spending, especially since Islamabad routinely falls far shy of its tax-collection targets.

They were right. Now half-way through the fiscal year, Bhutto's government is facing a major fiscal crisis. The government has yet to release figures. But Finance Ministry sources say they are considering reducing the revenue target by 19% to 210 billion rupees for the year to June 30 after a huge shortfall in revenue collection during the July-December period.

But even this revision may be overly optimistic. Unofficial sources say that net receipts for the six months to December totalled only 95.5 billion rupees, or 37% short of the target. The shortfall in the collection of indirect taxes during the period is around 36%; income-tax collection is off its mark by 39%.

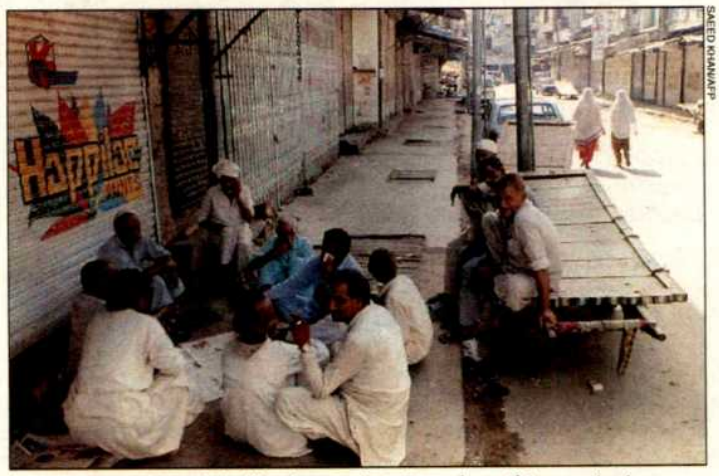
Government spending, which was supposed to be curtailed under tough IMF guidelines, was reported to be 18% higher for the six-month period. So desperate is the situation that Bhutto, who is also the finance minister, stopped all government ministries from issuing cheques of more than 100,000 rupees and cancelled all development funds for December.

The crunch leaves little doubt that a three-year structural-adjustment loan programme that the IMF approved a year ago is in deep trouble. "Everyone is putting their numbers together at the moment, but the situation appears grim," says a foreign lending official. Under the $1.4 billion loan programme, Islamabad pledged to cut its budget deficit to 4% of GDP and deliver economic growth of 6.9% for the year to June 30. No one — not even officials in Islamabad — thinks Pakistan can meet those targets now.

The first hint of a budget implosion came in a small news item on January 3. It said that Central Board of Revenue Chairman A.R. Siddiqui had been fired and that 30 senior CBR officers had been transferred.

The government remained officially mum, but businessmen feared the worst. Rumours of a massive revenue shortfall quickly sowed uncertainty in the marketplace. Shopkeepers jacked up their prices; inflation already had soared to 14.3% year-on-year in December, although independent economists estimate the rate at more than 22%.

Meanwhile, CBR officers who managed to keep their jobs say they were given a drumming. New CBR Chairman Javed Talat, who is also secretary of finance (the highest-ranking bureaucrat in the ministry), quickly set new revenue targets and gave officers urgent deadlines to meet them. "We have been told to even paint our targets on the ceilings of our bedrooms, so that we see them when we go to sleep and wake up," says a CBR official. "Things are very tense."



SAEED KHAN/AFP

No to Bhutto: Rawalpindi's shops shut down in anti-tax protest.

Bhutto, in an interview on January 10, tried to explain the shortfall. "Under the guidelines of the IMF, we had gone from an easy revenue collection to a difficult revenue-collection system. Before we just taxed things at the port through tariffs. The IMF wanted us to move away from higher tariffs and transfer to a general sales tax," she told a small group of reporters. "But the amount we were gaining from tariffs has not been made up by the GST. If we had stuck with tariffs instead of GST, the targets would have been met."

Collection of the new sales tax was delayed two months after businessmen shut down their operations in a two-day nationwide strike in late June. They said the tax rate is too high for a country in recession and was impractical to collect. Many independent economists agreed.

Others fault the Board of Revenue for the crisis, saying it wilfully overestimated revenue targets to impress the IMF. "They just failed to take into account the lowering of tariffs, the recession, the slowdown in imports and the government's inability to collect GST," says a Pakistani banker.

Shahid Hassan Khan, special adviser to the prime minister on economic policy, denies any intentional neglect. "There was a major policy shift to broaden the tax base, introduce GST, but these have not been collected. Tariffs were reduced to stop smuggling. These were totally new areas we were trying. The first three months we were unclear and were only alerted in November about the shortfalls," he explains.

Khan says the government has asked the IMF for greater flexibility to revise its budget targets. "Last week the IMF came and saw the figures and they were sympathetic," he says. "They said it was no fault of the government or policy, but because of natural causes." He was referring to the all-important cotton crop, which has been devastated by heavy rains and blight for three years running. Cotton yarn and fabrics account for 60% of the country's exports.

The IMF, however, is more circumspect. Sources say that in a November meeting the government did not accept an IMF warning that the country's revenues were way off and inflation was rising. They would not say what adjustments to the loan programme are being considered, although negotiations for the second year are continuing and a high-level Pakistani mission is expected to go to Washington this month.

Bhutto insists that she "will definitely try to meet the deficit targets." The government also wants to try to hold domestic borrowing for the year to around 15 billion rupees. However, most experts say it is highly unlikely that Pakistan can meet these goals.

"All the targets are off, so the whole package will have to be reviewed," says another official from a multilateral lending institution. "Although the government will not abandon the IMF programme, because international credibility and new foreign investment are at stake, it can never go back to its GDP deficit target of 4%." ■

INVESTMENT

Call Home

New Delhi's reforms lure Indian businessmen in U.S.

By Pamela Yatsko in Boston

As founder, chairman and technical director of Massachusetts-based Bose Corp., a high-end stereo maker, Amar Bose is just the sort of entrepreneur India needs to seed its industrial base with capital and know-how.

But among Indian expatriates in the United States, the 65-year-old former professor is only one of several. The Route 128 technology belt surrounding Boston is sprinkled with companies founded by ethnic-Indians. Whether they're expanding established businesses or starting new ones, they are increasingly drawn by their homeland's domestic market and manpower pool. These entrepreneurs — Indian-Americans or non-resident Indians who came to the U.S. in the 1960s and 1970s and stayed — find that New Delhi's recent liberalization efforts make India worth a close look.

Bose: India gets a second look.

Or in Bose's case, a second look. In 1964, he founded a company to commercialize his research in acoustic engineering at the Massachusetts Institute of Technology. Half-Indian, Bose hoped his company would one day do business in India. His father, an immigrant who funnelled funds to Indian rebels trying to overthrow British rule, was "extremely proud" of India's independence in 1947. "He always told me that I should do something there," says Bose.

By the 1970s, Bose felt ready to fulfil his father's wish, and site his company's first overseas factory in India. He got no further than negotiations with the Indian Government. No amount of emotional pull could make up for frustrations with the Indian bureaucracy, with coal and transport strikes, and with labour unions. "Delivery with quality is the name of the game. If you can't supply that, the labour rate doesn't mean anything," Bose says.

When Bose tried to set up a transistor supply line with government-owned Bharath Electronics, the Indian company charged two to three times the price for parts identical to those it exported to the U.S. through Bose's competitor, Siemens. "Bharath got foreign-exchange privileges for exporting," Bose explains. "This was not the team spirit of people who cared."

Bose built the plant in Ireland instead, and later set up factories in Canada and Mexico. His privately held company now employs 3,100 people worldwide and has $500 million in annual sales. It boasts the best-selling loudspeakers in the U.S., Europe and Japan.

Bose doesn't regret bypassing India,

Diamonds Aren't Forever

Su-Raj, an Indian firm of diamond cutters near Bombay, is doing everything right to remain competitive internationally. Its young and professional managers are planning for a future in which India has less of a labour-cost advantage.

They are introducing automation and improving productivity by investing in worker training; reaping economies of scale by producing more in-house; diversifying into higher-grade products; and building up their brand image in foreign markets.

Yet, Su-Raj is an exception among Indian diamond cutters. In fact, finding companies like Su-Raj in any Indian industry is difficult. So says a team of Harvard Business School researchers, led by business-strategy guru Michael Porter, author of the acclaimed book, *The Competitive Advantage of Nations*, published in 1990.

Porter and his colleagues conducted a two-year study for the Indian Government in which they analyzed the competitiveness of 18 Indian industries — six of them in particular depth: diamonds, software, garments, steel, bicycles and water pumps for farming.

Porter says these industries will lose their edge because they're based almost exclusively on cheap labour and raw materials. If all a country offers is cheap workers, Porter says, then some other inexpensive labour source will sooner or later emerge to steal the market. "You have to add more skill, more technology, more sophistication," Porter says. "India really has not gotten very far in this process."

Pankaj Ghemawat, a Harvard business professor who wrote the study with Porter and another scholar, looked closely at diamond cutting. Like India's other successful industries, the fortunes of its diamond cutters are fragile. For one thing, India imports 80% of the uncut diamonds it uses and is therefore beholden to prices beyond its control.

Furthermore, India specializes in small gems, the most labour-intensive segment in the diamond industry, while India's labour-cost advantage has nowhere to go but down, according to the Porter study. And even if India kept its wage advantage, it has little room to expand its traditional products; it already accounts for roughly 70% of world volume in small diamonds.

Ghemawat says that to save itself, the industry must shift towards fancier diamonds or jewellery because their production depends less on labour. There's lots more that can be done with jewellery than with plain small diamonds, and Indian producers would be able to add more to the value of the goods they produce.

Noting the industry's capital-to-labour ratio of 500 rupees ($16) per worker, Ghemawat says it must move towards 5,000 rupees per worker. While Su-Raj and a few other companies are making the necessary changes, most in the industry are still asleep, Ghemawat adds.

Moving from diamonds to garments, the Harvard researchers found more dis-

but says: "I sometimes feel sad because there is such talent in the country . . . I look at products coming from Korea and I say, 'My God, why aren't these Indian?'"

Perhaps in the future they will be. Bose says he's now ready to give India another look. He has been sending staff there to investigate setting up a wholly owned marketing and sales subsidiary similar to the 15 he has in Europe, Canada, Russia, Australia and Japan. Once the marketing and sales facility is up and running, he might manufacture in India.

Samir Desai and his 400-employee System Resources Corp. have gone a step further. The company, which has sales of $40 million a year, provides advanced information systems for communications, navigation and surveillance. Customers include the U.S. Government and firms like Martin Marietta, IBM, Digital Equipment Corp. and Reebok. In November, Desai was one of 12 businessmen from Massachusetts to accompany Sen. John Kerry on a trade mission to India. He scouted for joint-venture partners in Bangalore and Bombay, and found five that he is now considering.

Desai moved to the U.S. in 1968 from a small village in Gujarat, western India. He got a master's degree in Illinois, moving to Massachusetts in 1971 to work for a bar-code maker. He started System Resources in 1985; in 1993, it was recognized by the U.S. Small Business Administration as Prime Contractor of the Year.

Now it's time to expand: "Geographically, India is well placed to launch our international strategy," says Desai. Besides selling India information systems for airports and other transport facilities, Desai hopes to use the country as a springboard into other overseas markets.

He says he chose India because he knows it better than other large emerging markets like China where he has no personal connections. Besides, "the legal system in India is more like [the U.S.] and it's a more open society."

While such enthusiasm is widespread, others, like Bose, are cautious. At a recent Saturday-morning meeting of the Boston-area Indian American Business network, businessman Gope Gidwani told his 40-odd peers why that is the case.

Gidwani was an investor in Harvard University's failed effort to set up a computer-science academy in Bangalore. He helped to choose an Indian company as the project's trustee. The not-for-profit project ran for two years until, in 1992, it mysteriously ran out of money. The trustee wouldn't account for $80,000 of the $240,000 invested, Gidwani alleges. "Their attitude was 'sue us; it will take you 10 years'," he asserts. Michael Schinagel, dean of Harvard Extension School, says Harvard won't resurrect the project.

But if anyone can jump India's business hurdles it is non-resident Indians. Twenty-five out of 46 American firms involved in a U.S.-aided Indian joint-venture programme are founded by Indian-Americans or non-resident Indians, says programme adviser Jerry Helrich. The project, partly financed by the U.S. Agency for International Development, lends the ventures half their development costs, up to a maximum of $500,000.

Ethnic-Indian executives who have worked their way up the ranks of American hi-tech firms are often at the forefront of their companies' India efforts. Five of

Home Improvement

Non-resident Indians are an important source of investment

	India's total foreign investment approvals ($ millions)	Share by NRIs (%)
1983	61.3	10.5
1984	99.5	13.0
1985	101.9	15.1
1986	84.8	7.4
1987	83.1	19.3
1988	172.2	7.4
1989	195.1	6.7
1990	73.3	4.1
1991	234.9	3.7
1992	1,267.2	11.6
1993 (Jan.-May)	1,046.9	5.6

Source: Business India

REVIEW GRAPHIC/RAY LEUNG

appointing news. "We hoped to find [in garments] an industry that looked utterly ready to take the world over," Ghemawat recalls. Instead, they found an industry stuck in a "low-end trap," unable to boost its share of exports to developed countries above 4%, nor able to raise its average profits per garment above $4.

Ghemawat says that because most Indian garment makers make ladies' dresses, skirts and blouses — all of which are subject to fashion trends and seasons — factories cannot run year-round. The industry is stuck on cotton, says Ghemawat, and while Indian raw cotton is relatively cheap, by the time factories convert it to fabric it costs slightly more than cotton fabric in other developing countries. Most Indian garment makers offset the price by keeping labour costs low, a solution that won't last forever. And, like the diamond industry, the garment industry relies on small, inefficient shops that can't easily shift towards new production processes or products, Ghemawat says.

The best hope for India may be its software industry. Innovative and able to adapt to new circumstances, the industry is the closest to securing a sustainable competitive advantage, says U. Srinivasa Rangan, the study's third main author. India has many highly trained engineers and mathematicians that the industry can hire as it grows.

Anticipating lower-wage competition, India's largest software companies, like Tata Consulting Services, are already moving beyond handling low-end, low-cost programming for foreigners — known in the trade as "body-shopping" — towards more sophisticated software engineering and designing. They are investing heavily in data transmission capabilities and employee training, and temporarily hiring U.S.-based professors to transfer the latest developments in software engineering.

Still, Rangan says, most Indian software firms find it a formidable challenge to understand the needs of a particular foreign user. He thinks the process could move much faster if the government became a more sophisticated user of information technology and thus created a market for higher-end Indian software. Rangan says lifting import restrictions on computers and getting more Indians to use them, thus developing the domestic market, would also help.

The study's findings, delivered to the Indian Government in September, were not music to Indian ears. "We've experienced a lot of resistance," from both government and industry, says Porter.

He is at his most damning when he discusses success. The relative prosperity of industries like diamonds, garments and software can be attributed to their minimal contact with the dysfunctional Indian economy. These companies "bring in diamonds, do something to them, and send them out. [They] don't need to buy [Indian] steel because steel is screwed up. [They] don't need to depend on efficient pumps because pumps are screwed up. [They] don't need to have good railroad transport because [they] fly [their exports] out."

It's time, Porter insists, for New Delhi to embark on the next round of reform: Liberalizing internal markets.

■ **Pamela Yatsko**

the 12 firms on Kerry's trade mission were represented by ethnic-Indian executives.

America's 100 biggest companies account for about 90% of the $2 billion in U.S. direct investment approved by the Indian Government from 1991 to 1994, says Robert Meagher, legal adviser to the India Interest Group, which represents 40 large American firms investing in India. Narayan Valluri, Minister for Economics at the Indian Embassy in Washington, says their Indian executives influence investment decisions and make contacts with India easier.

Like Desai, some executives were lured to the U.S., and Massachusetts in particular, by job offers from hi-tech companies. Others, like Bose, came as students — mostly in science, engineering and business — to one of the state's numerous universities. At MIT, 163 of 921 living alumni from India, almost 20%, still live in the state. Moreover, Kerry found that about one third of the 75 Indian businessmen at one of his New Delhi meetings went to school in Massachusetts or were close to someone who had.

Not surprisingly, the first Indian-founded companies in Massachusetts to establish links with India subcontracted software development there, taking advantage of India's low labour costs and technical manpower. They also imported Indian programmers to the U.S. The Boston Group, for instance, started out in 1988 using Indian programmers to do the low-end coding and maintenance portion of its software projects for large U.S. companies. Now it wants to do higher-end design work in India and plans to open offices in Bangalore, where programmers will write software for doctors' offices that uses pen-based and mobile-computing technology.

Interest in setting up sales and marketing or manufacturing subsidiaries in India is a more recent phenomenon. It's based on the perception that New Delhi is easing restrictions on business there — a perception that the founder of Sumaria Systems thinks is flawed. Veni Sumaria, whose company provides software applications primarily to the U.S. Department of Defence, wasted weeks obtaining business visas for India. A large company, he complains, can afford to spend three weeks trying to get a consulate to return its phone calls, but a company like Sumaria Systems, with less than 100 employees, cannot.

Despite the obstacles with India itself, Massachusetts is finding that its pool of well-educated, experienced ethnic-Indians is a boon for exports. The state shipped $40 million in goods to India in 1993 and roughly doubled that figure in 1994. Little wonder, then, that Massachusetts governor William Weld plans to head a business mission to India in February. ■

COMPANIES

Ace in the Hole

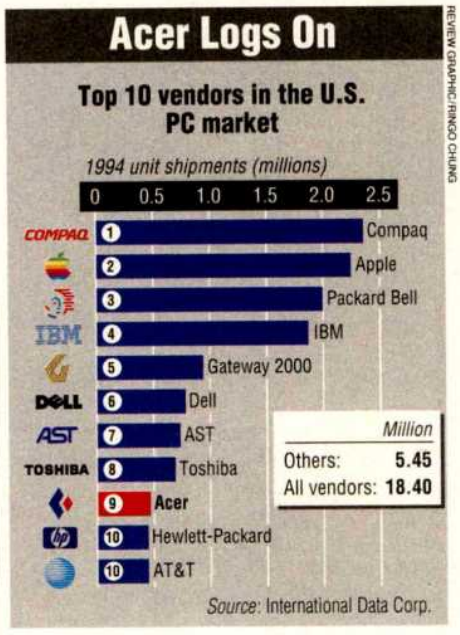
Taiwan's Acer makes surprising comeback in America

By Michael Zielenziger in San Jose, California

At the entrance to the factory floor of Acer America, the United States arm of Taiwan's largest electronics maker, stands a sleek, jet-black multimedia home personal computer.

There is no plaque attached to the PC, which has stereo speakers, a CD-ROM drive and colour monitor, as well as a Pentium microprocessor. But if there was one it might read: "Here is the machine that saved this company."

Two years ago, Acer America probably would not have built a black computer,



admits Ronald Chwang, the company's president. Back then, decisions were made by engineers in Taipei, not marketing executives in Silicon Valley.

No more. Acer America has transformed itself from an engineering-focused company into a market-driven one, becoming a Silicon Valley heavyweight in the process.

Much of this was good luck: Acer happened to have the right product at the right time. The U.S. market for powerful home computers finally took off and consumers started buying more powerful computers for their homes than their offices. As a result, Acer became for the first time one of the top 10 PC producers in the U.S.

Last year Acer America's sales hit $851 million. Revenues were double those in 1993 and accounted for nearly a third of the Acer group's consolidated sales of $3.2 billion. And in a year of surging personal-computer sales in the U.S., market-research firm International Data Corp. estimates Acer America boosted its share of the U.S. market to 2.5% in 1994. That was up from 1.7% a year earlier.

Part of that success is due to Acer Chairman Stan Shih's decentralization drive. Managers in the U.S. have been given greater autonomy to make decisions without consulting Taipei, define future product designs and take a more entrepreneurial approach.

"We are a different company today," says Chwang. "We go into the market and talk with our [retailers] about products . . . So we're really moving into the fashion business."

Consider the black Pentium-powered computer. When Best Buy, the Minnesota-based electronics chain, shopped America last year for a product it could highlight for Christmas, it was looking for a computer clone-maker to produce a home computer in a colour other than industrial grey. Only Acer responded to the call.

"Acer stepped up and said: 'Yeah, sure, we can build you a black box'," says Van Baker, an analyst who tracks PC sales for San Jose-based market-research firm Dataquest. "They built 10,000 units and Best Buy went through them really fast."

That flexibility has made Acer the first Asian computer maker to successfully compete in the U.S. market. "They were willing to build a custom box when others might have said the logistics are too complicated," Baker says. "And they got rewarded with some really strong business."

All this marks an impressive turnaround for a company once thought moribund in the U.S. market. Just 18 months ago, Acer America was a troubled firm unable to compete with the price-slashing tactics of major American firms such as IBM and Compaq Computer. Acer faced unsold computers and had problems keeping up with the fast-paced market for high technology in the U.S.

But that has changed. Today, Acer has become a compact, fast-moving company that exploits opportunities the U.S. giants have missed. Acer America was among the first firms to anticipate the demand for home multimedia computers — high-end systems with CD-ROM drives that play compact disc-based software with sharp graphics and stereo sound.

Acer bet correctly that home users would pay a premium for machines

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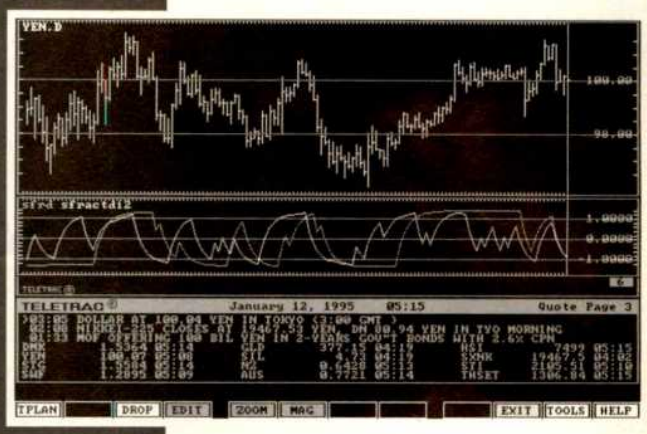

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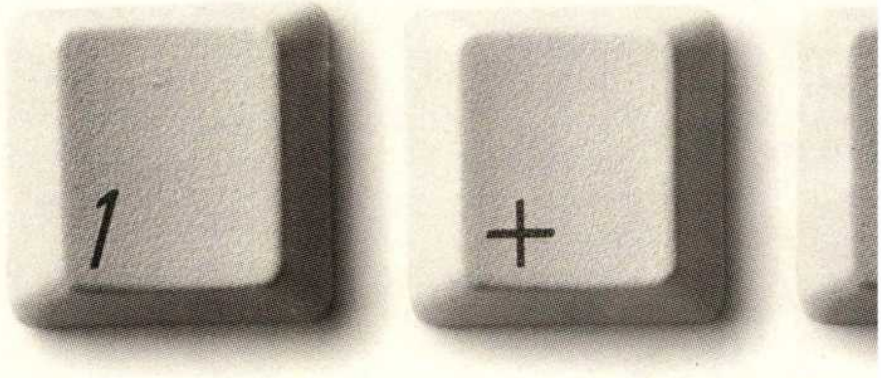

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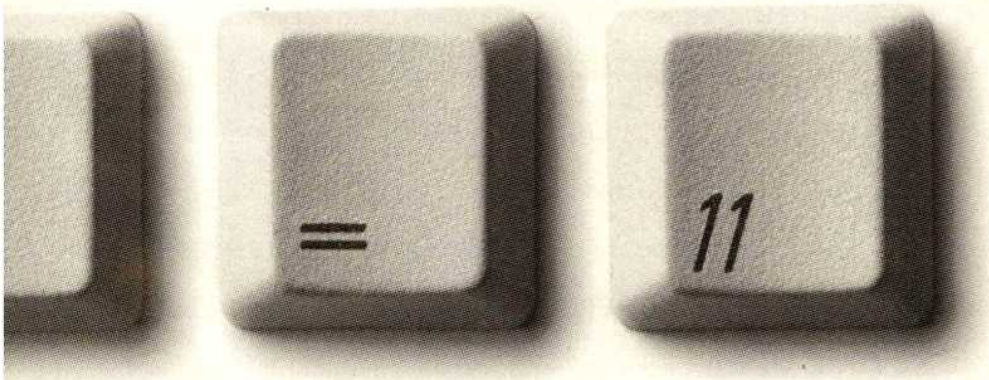

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equipped with Intel's latest-generation Pentium microprocessors, which have the blistering speed needed to make CD-ROMs more than a toy. "Pentium was a very important vehicle for us to establish basically a beachhead in the consumer channel," Chwang says.

Last spring, Acer decided that all its multimedia systems for home use would be powered by Pentium chips, rather than sticking with Intel's less-powerful 486 chips. "We were one of the two [along with Packard-Bell] who did that complete transition," Chwang notes. Even a widely publicized flap over a flaw in Intel's chip didn't really pinch Acer's Christmas sales, Chwang says.

"Only Acer and Packard-Bell really understood that consumers wanted Pentium-based multimedia machines this Christmas," Brad Anderson, president of Best Buy, told an industry conference in December. "They were in the marketplace selling Pentiums when others were still selling 486-based machines for office use."

A tour of Acer's San Jose facilities demonstrates its new emphasis on custom design. Workers assemble computers using modules, hard-disk drives and printed circuit boards. Most components are brought in from Taiwan, although disk drives and microprocessors are bought in the U.S. "It's easy for us to build small orders," says plant manager Terry Wigness. "Even on a non-standard request, we can get it out the door in five days."

While some PC firms such as IBM and Hewlett-Packard are moving manufacturing bases offshore, Acer has added a second production shift at its factory in Silicon Valley, nearly doubling its local workforce to about 900. Acer now assembles 50,000 PCs a month at its U.S. factory.

Keeping assembly operations in Silicon Valley is a key to Acer's success, Chwang notes. "People keep talking about manufacturing moving away from this country," he says. "I have a firm belief that in this industry, manufacturing is coming back to the U.S. The cost of labour is no longer the question. Time-to-market and the ability to do mass customization is the key issue."

Plans call for Acer America to be spun off through an initial public offering. If all goes well, that offering should take place in the next year or two.

Acer will have to fight hard to keep its position. But for this year, at least, its position looks secure. Sales of multimedia computers look set to remain strong and the Pentium will likely remain the chip of choice through a second Christmas buying season.

Meanwhile, Chwang is spending heavily on advertising and investing in research on how to make computers easier to use. Says Chwang: "We want to invest in our visibility, as well as in research." ■

POLICIES

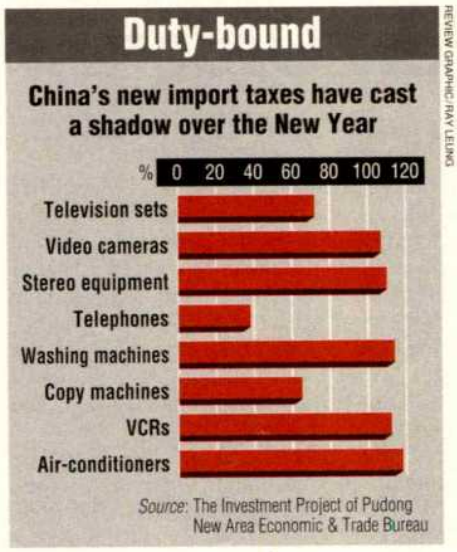
Tax Trouble

China takes away import privileges

By a Correspondent in Shanghai

A 40-foot container crammed with office furniture for General Motors' new office sits on a dock in Shanghai. By the looks of things, it may be there for some time. At the beginning of the year, General Motors learned it would have to pay duty on the goods.

Stephen Schnell, the company's general manager in Shanghai, says he's considering shipping the container back to Hong Kong. "We may just have to buy the local product and have it replaced every six months," he grumbles.



Under a new policy effective from January 1, foreign enterprises and individuals in China will have to pay customs duty on 20 so-called luxury imports that previously were duty free, according to May Huang, a tax specialist at Coopers & Lybrand in Beijing. In the past, foreign representative offices in China's special economic zones and 14 coastal cities had duty-free status for six months. Foreign-invested enterprises were also granted tax exemptions for goods imported as part of their capital contributions.

But now goods including office equipment, furniture, telephone systems, computers, washing machines, televisions and refrigerators will be taxed. Duties range from 38% for a fax machine to 118% for an air-conditioner. The goods are also subject to the standard 17% value-added tax. And according to a source at the Shanghai Customs Bureau, building materials may soon lose their duty-free status, too.

The new duties raise the already high cost of doing business in China. They also heighten business jitters. The directive follows a series of measures over the past year that have tightened the screws on investors and reduced their privileges.

Why has China chosen to dampen its business climate further? Some foreign executives speculate that the policy shift may be Beijing's way of retaliating for being blocked from re-entering Gatt, the world trade body. Others say the duties are aimed at raising revenue and protecting local industries.

But Norman Givant, a lawyer at British law firm Freshfields, offers a more plausible conclusion: Flush with foreign investment, China no longer feels it needs to offer incentives to attract overseas investors. In Beijing's eyes, at least, investors will come anyway.

Maybe. But the indications are that the China boom is levelling off. Actual foreign investment rose 11% to $28.8 billion last year. However, contracted foreign investment, which is an indicator of future investment, fell by almost half to $69 billion from $122.7 billion in 1993.

Whatever the reasons, the move on imports epitomizes what foreign companies loathe about China: Sudden policy shifts without notice. "The biggest problem with this law," says an American telecoms executive, "is they announce it one day and it goes into effect the next."

Moreover, while most foreign firms were unaware of the December 31 directive, some Chinese knew about it in advance. According to Robert Carroll, general manager of Inchcape Gilman Office Machines in Shanghai, Chinese office-equipment companies were clearing their warehouses on December 31. "I got a call on January 3 asking: 'Why is your warehouse still full? Everybody else's is emptied out'."

Indeed, Chinese partners in Shanghai Links, a golf and country-club project, warned their foreign counterparts last November about the impending changes, says Murray Venance, one of the project's partners.

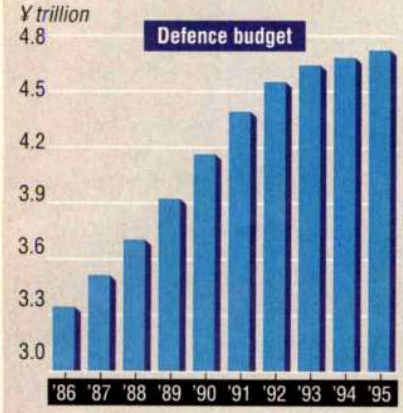
For now, foreign companies are calculating how much money they could lose. Inchcape's Carroll says about 50% of the firm's business could be affected if customers switch to buying domestic office equipment.

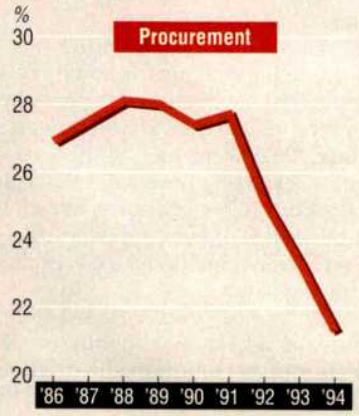
Foreign telecoms suppliers are also reeling. The directive targets central office switches, private branch exchanges, telephones, pagers and fax machines.

Warns Givant of Freshfields: "[It] can't help but cause people to reconsider their strategies in this part of the world." ■

Bigger Pie, Smaller Piece

Share of defence budget that Japan spends on procurement, 1986-95





Source: Japan Defence Agency

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New World, Few Orders

Japan's arms makers feel the post-Cold War heat

By Charles Smith in Tokyo

Japan's defence companies are remarkably good at keeping out of the public eye. That's no small feat for an industry that generates ¥2 trillion ($20 billion) in annual revenue and employs an estimated 160,000 workers, but it's understandable in a country with a strong pacifist streak.

Declining government-procurement budgets will begin to squeeze small defence contractors after current orders are filled in a few years' time. The resulting threat to thousands of firms may force the government to reconsider its ban on weapons exports, which has been in effect since the 1970s. And that in turn may require some of the country's low-profile weapons makers to take a public role in the debate, or risk extinction.

Since 1991, the government's weapons-procurement budget has dropped 10% to ¥900 billion. In some sectors, defence procurement is running at less than half of its late-1980s peak. Japan's aircraft industry, which in the past depended on defence purchases for 80% of turnover, has seen those orders halved in the last decade.

Missile and ammunition makers have faced a similar decline. Ryozo Tsutsui, a senior manager with major defence contractor Kawasaki Heavy Industries, says that's partly because the Japan Defence Agency, with less to spend, is importing products rather than having them developed, expensively, in Japan.

Procurement cuts have forced huge contractors like Kawasaki and Mitsubishi Heavy Industries to shift workers from defence-related research and production divisions to non-defence work. Toshifumi Hirai, director of the aircraft and weapons division at Miti, the Ministry of International Trade and Industry, says: "If the government does nothing, the industry will face very serious problems within the next two or three years."

Some analysts reckon Japan won't be able to retain its ban on weapons exports. "Assuming that Japan remains a weapons producer, I would expect the no-export policy to be modified within the next decade," says a defence attache at a Western embassy. While there are no immediate plans for outright Japanese arms exports, there is talk that down the road Japan may develop weapons with American and European partners.

In the meantime, Miti's biggest worry is that smaller and more specialized manufacturers may quit defence production, undermining the industry's technological base. "Giants [like Mitsubishi or Kawasaki], which derive only 15-20% of their sales from defence production can probably live with a decline in defence orders," Hirai says. (The top 20 or so contractors employ roughly 50,000 of the industry's 160,000 workers.) "The problem is that the big companies depend on thousands of subcontractors for components and specialized technology."

For example, the T90 tank, designed and produced by Mitsubishi, involved more than 10,000 workers and 1,000-2,000 subcontractors, says Makoto Ike, a defence specialist at the Keidanren, Japan's leading big-business group. Keidanren officials say 13% of secondary subcontractors serving Mitsubishi and other big firms are more than 50% dependent on defence work. They are most vulnerable to the kind of cutback that has befallen the T90: The government in 1991 put in a five-year order for 26 tanks a year; now it wants only 20 a year.

Mitsubishi's specialized subcontractors seem to be bearing up well for now, says Yutaka Hineno, managing director of the company's aerospace and special-vehicle headquarters. That's because there's a time lag between cuts in the defence agency's procurement budget and a slowdown in work on the factory floor. "Most of the weapons systems we order nowadays take three or four years to build," says a procurement official at the agency. "Changes in spending levels take time to filter through to the industry."

Take the case of the F15 fighter, which Mitsubishi is building under licence from McDonnell Douglas of the United States. Mistubishi will turn out eight of the aircraft this fiscal year — but there are orders for only four more in the pipeline.

Miti's Hirai says: "While there may be enough work to go around today, things are going to get very difficult indeed in two to three years' time." Keidanren defence specialists are even more pessimistic. They expect the defence agency's 1996-2000 defence plan to feature another sharp cut in arms purchases.

"Worst of all, no one knows where the industry is headed," says the Keidanren's Ike. European countries "have defence-procurement plans running up to or beyond 2000, but we have no way of knowing what will happen after the beginning of 1996."

Not all the problems facing Japan's defence industry are self-inflicted. For one, the U.S. has become less accommodating to Japan's needs for weapons technology. Back when the countries shared an interest in deterring the Soviet Union, Washington was content to see know-how flow mainly one way; now it insists on what it calls a "fair exchange" of expertise.

The U.S. Defence Department "wants to cut costs and achieve scale economies by pooling know-how with allies," says an official in charge of procurement at the Japan Defence Agency. "That's fine with us so long as we are required to exchange military know-how that's directly controlled by the government. The difficulty is that Washington is asking us to supply dual-use technology [technology developed for civilian use that also has possible defence applications]. The Americans are being very aggressive about this, but dual-use technology is the property of private industry and we can't just tell companies to hand it over."

At Mitsubishi Electric Corp., known as Melco, senior manager Takehiko Tatsuko agrees. "Lockheed and other U.S. companies that provide aircraft technology to Japan want civil know-how in return," he says. "But how can you expect us to trade different kinds of technology?

A crucial test of Japan's ability to cooperate with the U.S. in arms-making could be the Theatre Missile Defence system. This space-based system would, in theory, counter the growing missile capabilities of countries like North Korea and China — and could be "the god that will save Japan's defence industry," suggests Melco's Tatsuko. The defence agency has set aside ¥20 million in 1995-96 to study the politics and strategic aspects of missile defence but hasn't yet focused on the technology. Japanese companies might work on upgrading Japan's land-based radar, or producing anti-missile missiles.

Even if the space-based system materializes, though, it may do little to shore up makers of conventional weapons. To that end, Miti hopes to devise a rationalization policy by fiscal 1995-96. Subsidies and government-guided production will no doubt feature in the policy mix. There may also be pressure from business to lift the ban on exports.

The policymakers are finding that the defence firms they want to help, especially the small ones, are very hard to find. Many employ only a handful of people and don't deal directly with the big weapons makers, let alone with the government. In addition, Miti's Hirai says, "many Japanese weapons producers would rather not identify themselves as such because downplaying that side of their business makes it easier to hire workers." But if the industry is to survive, more of its members may have to stand up and be counted. ■

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MEDIA

Ready for Prime Time

Kathmandu tunes in to cable television

By Jonathan Karp in Hong Kong

Satellite television, Asia's rooftop sensation, has reached the top of the world. Remote Nepal, which is short on TV sets and electricity to power them, now wants to scale new heights to enter the multimedia age.

Wait a minute. Nepal is one of the poorest countries in Asia, generating just $170 in per capita GNP in 1992. At last estimate, the country of 20 million people had only 80,000 telephone lines and probably fewer televisions — most of them black-and-white.

That's not stopping Kathmandu entrepreneur Prazwol Pradhan from building a cable-TV network. Launched in October, his privately owned Space Time Network already is piping 16 satellite-borne TV channels into some 1,000 homes in Kathmandu. At $40 for installation and a monthly charge of $3, viewing StarTV and other international services doesn't come cheap for the Nepalese.

Grander services are on the way, since Pradhan envisages Kathmandu as a future satellite-broadcasting hub rivalling Hong Kong and Singapore. This year, Space Time plans to start operating an earth station to beam television signals to satellites orbiting over Asia. That calls for a multi-million-dollar investment.

Yet, some analysts believe the idea isn't as outlandish as it may seem — and Pradhan is not the only one to dream it up. The Business India media group is also licensed by Nepal to operate satellite-uplink services.

"I think Nepal could become a Luxembourg," says American television-industry veteran Robert Button, referring to the tiny state that has been a European broadcast-services centre since the 1930s. Button recently spent two months in Nepal helping Space Time develop its business strategy. He was a volunteer in the International Executive Service Corps funded by the U.S. Government.

With its liberal foreign-investment environment — which the new communist-led government has pledged to keep — Nepal "is worthy of interest by U.S. companies," Button says.

One U.S. company, Satellite Transmission Systems, has recently taken an equity stake in Space Time, says Pradhan, declining to give details. Another leading firm, United International Holdings, which is involved in several cable-TV projects in Asia, is also considering investing, says Pradhan.

Two American "Baby Bell" telephone companies have been in contact with Pradhan, say executives familiar with the scouting missions to Nepal. U.S. satellite operator PanAmSat will probably use Space Net's facilities to communicate with its satellite serving South Asia, which is due to be launched this year.

Nepal may win some business by default. Other aspiring broadcast hubs have their own drawbacks: Hong Kong faces a return to Chinese sovereignty in 1997, Singapore restricts incoming television signals and India to date does not allow private channels to broadcast.

Until New Delhi changes its policy, Pradhan expects to draw considerable business from private Indian satellite-TV channels that are now using uplink facilities as far away as Moscow. "All of the new satellites coming up are focusing on India and China. So we're in the right position," he says.

Space Time will also beam a Nepali channel throughout the country. The mountainous terrain prevents clear reception by terrestrial television. There have been other restrictions: When the kingdom introduced television in 1986, it could afford only a low-power transmitter in Kathmandu with a broadcast range of 24 kilometres. Critics also inhibited the growth of local television, arguing the country had more pressing needs.

So Space Time's business plan calls for a satellite channel that will be used to educate Nepalese villagers. "[The government] wants programmes that will reach villages and teach villagers how to dig a well or milk a cow," says Button. The prime minister, he says, "doesn't care much for game shows." ■

ENTERPRISE

The Odd Couple

By Michael Newman in Seoul

North Korea is cautiously opening its economy in hopes of stocking up its empty larder. But, in a cultural collision that threatens to start Kim Il Sung spinning in his mausoleum, one of the first imports that the country's long-suffering consumers might have a chance to buy is a mixture of sugar, water, caffeine and caramel colour sold by some of the world's savviest marketers.

Soft-drink giant Coca-Cola was among the first companies to tell Pyongyang that it was interested in doing business in North Korea after the country eased its trade rules in mid-January. North Korea's ambassador to the United Nations, Park Gil Yon, visited the company's world headquarters in Atlanta on January 12.

Park was visiting Atlanta to tape an interview with Cable News Network. "Any time there's a major government official in Atlanta, the company likes to have him in," says Richard Nicholas, president of Coca-Cola Korea.

Company officials aren't saying what was discussed. But Coca-Cola is clearly interested in setting up operations in the North — despite the country's poor and relatively small population of 22 million. "Obviously, we'd go to the North Pole if we thought we could sell there," says Nicholas.

Coke is already available in the foreigners' hotels and hard-currency shops of Pyongyang as a result of black-market trading. But there is no advertising or official distributor.

When Coca-Cola does enter the market, it may have a tough time convincing North Koreans to buy a product that is so closely identified with the West, some say. "From what I've seen, Coke doesn't have a big following up there," says a Seoul-based executive. "Maybe it doesn't taste as good when you don't see it all the time on TV."

Indeed, North Korea may be the ultimate test of Coca-Cola's vaunted marketing prowess. But, as one local analyst notes, Coke has surmounted such challenges before, namely in China. Can an endorsement deal for North Korean leader Kim Jong Il be far behind? ■

BUSINESS BRIEFING

INDIA

Foreign Phone Stakes

New Delhi has set the range of foreign-equity participation in new telephone systems at 10-49%. Tenders were issued for 19 telephone areas covering most of the country outside the four major cities, seeking a private-sector competitor in each for the government telephone service.

U.S. Business Ties

Indian and American firms announced tie-ups for proposed investments in power, telecommunications and services worth an estimated $4 billion during United States Commerce Secretary Ron Brown's week-long visit. However, the Indian cabinet's approval of a "pilot" regional telecoms system in southern India by U.S. West and Indian partner BPL drew protests from other telecoms groups waiting to bid for regional networks under open tenders just announced by New Delhi.

PHILIPPINES

Foreign Leases Extended

The Board of Investments released rules implementing the Investors' Lease Act passed last year. The guidelines allow foreigners to lease commercial land for up to 75 years, up from the previous 50-year limit.

TAIWAN

China Motor in Turkey

China Motor, the country's largest car maker, announced cooperation with Turkey's biggest automotive-trading company, Temsa, to produce pick-up trucks and mini-vans in Turkey beginning later this year. The joint venture involves technology transfer, parts and manufacturing training to produce 24,000 vehicles annually within four years.

RAVEENDRAN/AFP

Rituals before trade: Brown honours Mahatma Gandhi in New Delhi.

THAILAND

Toyota Sales Rise

Toyota Motor announced that Thailand passed Australia to become its second-biggest market outside Japan in 1994. The biggest was the United States. Toyota sold more than 126,000 vehicles in Thailand last year, up 5.1% from 1993. Overall, more than 450,000 vehicles were sold in the country during 1994, a 6.4% rise.

Foreign Banks to Open

The Finance Ministry announced that 22 foreign banks received permission to open a total of 37 offices in five provinces. The government wants to diversify the funding sources open to businesses outside the capital.

JAPAN

Salt Almost Free

The Finance Ministry announced plans to abolish the salt-trading monopoly of Japan Tobacco, a partly privatized state corporation. Under the plan, production, sales and prices will be liberalized by April 1997 while imports will be freed in 2002. The move is one of a series of deregulation measures planned.

Air Decisions Delayed

The Transport Ministry told Washington that no decision will be made on American airlines' applications for new routes to and through Japan until a new round of negotiations has been concluded. The 1952 airline treaty allows U.S. airlines a 70% share of passenger traffic across the Pacific. Japan has been demanding "rectification" of the treaty.

Indicators

Merchandise exports from selected developing countries in Southeast Asia & Latin America, 1980 and 1992

REVIEW GRAPHIC/SIMON WONG PHOTO: GERHARD JORDEN

CHINA

Brakes Put On Market

Beijing will slow the development of securities and futures markets, Securities Regulatory Commission Chairman Liu Hongru said. He added that short-term speculation and imbalance of supply and demand on the markets were acute, and China would have to improve rules and train more staff before further growth.

Trade Turnaround

The country posted a $5.3 billion trade surplus in 1994, reversing 1993's $12.2 billion deficit, according to Customs Administration figures. Exports grew 31.9% from 1993, while imports were up 20.9%. Customs officials attributed the surplus to trade reforms and last year's devaluation of the yuan.

Framatome's Nuclear Deal

France's Framatome will supply equipment for a second nuclear power plant at southern Guangdong province's Daya Bay energy facility. A memorandum of credit for the project was signed by China's State Development Bank and Banque Nationale de Paris.

MALAYSIA

Renong in India

Renong, a conglomerate involved in construction and oil and gas development, won approval from the Indian Government to carry out a M$40 million ($16 million) feasibility study to build a 10,300-kilometre highway linking India's major cities. Renong's role in project planning is expected to ensure the company a later contract to build part of the $50 billion highway.

PRICES & TRENDS

Commodities

Latest sale to Jan. 16		Latest	Previous week	3 months ago	Year ago
Gold	London (2)	377.20	372.50	388.40	391.70
Copper	New York (3)				
Current delivery (Jan.)		139.85	137.40	114.20	84.70
Mar. delivery		137.95			
Aluminium	London (7)				
Current delivery (Jan.)		2,031.00	2,020.50	1,691.50	1,188.50
Tin	Kuala Lumpur (1)	15.30	15.13	13.68	13.50
Cotton	New York (3)				
Current delivery (Mar.)		90.94	88.58	69.14	69.98
May delivery		90.88			
Rubber	Kuala Lumpur (8)				
Current delivery (Feb.)		414.50	405.50	351.50	220.50
Mar. delivery		414.50			
Jute	Dhaka (11)	338.00	338.00	338.00	260.00
Palm Oil	Kuala Lumpur (4)				
Current delivery (Feb.)		1,475.00	1,585.00	1,428.00	995.00
Apr. delivery		1,394.00			
Sugar	New York (3)				
Current delivery (Mar.)		14.26	15.74	12.57	10.66
May delivery		14.42			
Pepper	Singapore (9)				
Sarawak Asta blk 100%		352.50	360.00	377.50	242.50
Wheat	Chicago (5)				
Current delivery (Mar.)		379.60	394.40	408.40	388.00
May delivery		364.40			
Maize	Chicago (6)				
Current delivery (Mar.)		234.00	231.60	217.40	310.00
May delivery		240.60			
Rice	Bangkok (7)				
5% white fob		285.00	280.00	300.00	400.00
Soyabeans	Chicago (5)				
Current delivery (Jan.)		551.20	549.00	538.40	708.60
Mar. delivery		556.40			
Cocoa	New York (7)				
Current delivery (Mar.)		1,308.00	1,341.00	1,269.00	1,177.00
May delivery		1,334.00			
Coffee	New York (3)				
Current delivery (Mar.)		169.80	174.95	188.35	73.95
May delivery		170.95			
Petroleum					
Sumatran light	Tokyo (10)	17.25	16.70	16.60	14.25
Brent	London (10)	16.37	16.28	15.88	14.23

(1) M$ a kg (2) US$ an oz (3) USc a lb (4) M$ a tonne (5) USc a 60 lb bushel
(6) USc a 56 lb bushel (7) US$ a tonne (8) Int 1RSS Mc a kg (9) S$ a 100 kg (10) US$ a barrel
(11) BWD, Chittagong/Mongla, US$ a tonne *Source*: Telerate, International Jute Organisation

Currencies *US$1 worth:*

Jan. 16		Spot rate†	Previous week†	3 months ago†	Year ago†
Australia	dollar	1.3151	1.3106	1.3576	1.4384
Bangladesh*	taka	40.20	40.20	40.20	39.75
Britain	pound	0.6377	0.64	0.6222	0.6689
Brunei	dollar	1.449	1.4525	1.474	1.6087
Burma**	kyat	5.8759	5.8894	5.7697	6.2633
Canada	dollar	1.4092	1.4082	1.3548	1.3178
France	franc	5.295	5.3145	5.1585	5.94
Germany	mark	1.5338	1.5393	1.503	1.751
Hong Kong	dollar	7.742	7.74765	7.7275	7.727
India*	rupee	31.3625	31.37	31.37	31.375
Indonesia	rupiah	2,203.00	2,203.00	2,184.00	2,118.00
Japan	yen	98.60	100.17	98.03	110.89
Macau*	pataca	8.10	8.10	8.10	8.10
Malaysia	dollar	2.5535	2.5538	2.557	2.7305
Nepal*	rupee	49.40	49.40	49.40	46.3772
New Zealand	dollar	1.5618	1.5713	1.6359	1.7832
Pakistan	rupee	30.8291	30.7292	30.6194	30.1998
Papua N.G.	kina	0.856	0.84	0.9409	0.9748
Philippines	peso	24.607	24.496	25.43	27.807
Singapore	dollar	1.449	1.4525	1.474	1.6087
South Korea	won	792.70	791.00	800.00	811.50
Sri Lanka	rupee	48.515	48.447	47.77	48.14
Switzerland	franc	1.286	1.2875	1.2513	1.4752
Taiwan	NT dollar	26.3275	26.368	26.115	26.365
Thailand	baht	25.05	25.09	24.92	25.55

Communist countries: China US$=Rmb 8.4411 HK$=Rmb 1.0889 Laos US$=Kip 721
Vietnam US$=Dong 11.075
Other: Commonwealth of Independent States US$=Rouble 3.776
SDR1=US$1.46919 ECU1=US$1.2375 S$1=M$1.7614 Cambodia US$=Riel 2.592

**Unofficial rate: US$1=Kyat 100-120 *Official rate †Middle rate
Source: Telerate for spot rates, Dao Heng Bank Ltd. for official rates

Currency Deposit and Bond Yields

Eurocurrency and Asian currency unit deposit rates (%)†

Jan. 16	1 month	3 months	6 months	12 months	10 year govt bonds yield
US$	5.625	6.0625	6.50	7.1875	7.79
Sterling	5.6875	6.00	6.375	7.1875	8.81
Yen	2.1875	2.25	2.3125	2.50	4.60
Swiss Fr.	3.6875	3.9375	4.1875	4.5625	—
Dm	4.875	5.03125	5.25	5.71875	7.59
A$	7.62	8.12	8.81	9.75	10.30
C$	6.68	7.31	7.68	8.43	9.42
ECU	5.6875	6.00	6.375	6.875	8.70

†Offered rate *Source*: Telerate, Salomon Brothers

Economic Indicators, Selected Asian Countries

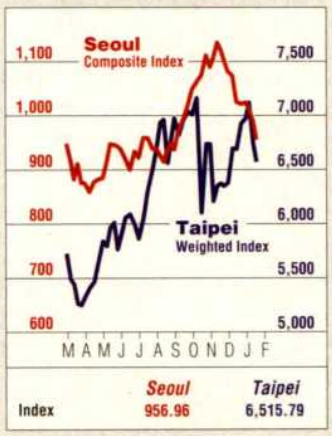
	Australia	China	Hong Kong	India	Indonesia	Japan	Malaysia
Economic Growth % (real) (1)							
1994	5.4	11.0	5.5	5.2(4)	7.0	0.7	8.6
1995	3.9	8.5	4.8	5.5(4)	7.2	1.9	8.3
International Reserves (5)							
Latest	US$11.39b (Oct)	US$36.37b (Jul)	US$43.00b (Dec 93)	US$20.16b (Oct)	US$11.31b (Aug)	US$123.73b (Oct)	US$30.21b (Jul)
Year earlier	US$11.20b	US$20.21b	US$35.25b (Dec 92)	US$8.37b	US$11.10b	US$98.20b	US$17.94b
Trade Balance (total merchandise)							
Latest 3 months	-US$1.74b (Jul-Sept)	+US$2.48b (Aug-Oct)	-US$2.42b (Sept-Nov)	-US$0.71b (Sept-Nov)	+US$2.55b(8) (Jun-Aug)	+US$29.76b (Sept-Nov)	+US$0.22b (May-Jul
Previous 3 months	+US$0.29b	+US$1.69b	-US$2.16b	-US$0.63b	+US$1.86b	+US$29.73b	-US$0.52b
Year earlier	-US$0.19b	-US$2.46b	+US$0.57b	-US$0.26b	+US$1.95b	+US$30.86b	+US$0.63b
Exports (6)							
Latest 3 months	US$11.90b	US$31.13b	US$42.04b	US$6.19b	US$10.61b(8)	US$105.12b	US$14.73b
% change previous 3 months	-1.9	+1.4	+4.8	-1.7	+13.6	+5.8	+14.7
% change year earlier	-0.2	+26.9	+16.1	+23.3	+16.3	+12.9	+21.9
Imports (7)							
Latest 3 months	US$13.64b	US$28.65b	US$44.46b	US$6.90b	US$8.06b(8)	US$75.36b	US$14.51b
% change previous 3 months	+15.3	-1.2	+5.2	-0.4	+7.8	+8.2	+8.5
% change year earlier	+12.6	-6.1	+24.7	+30.6	+12.4	+21.0	+26.7
Consumer Prices							
Base	Jul 89-Jun 90=100	Nov 1993=100	Oct 89-Sept 90=100(2)	1982=100	Apr 88-Mar 89=100	1990=100	1990=100
Latest 3 months index average	111.9 (Jun-Sept)	127.5(11) (Nov)	150.9 (Sept-Nov)	289.3 (Sept-Nov)	162.4 (Oct-Dec)	107.5 (Sept-Nov)	117.2 (Jul-Sept)
% change previous 3 months	+0.6	n.a.	+2.2	+0.8	+2.0	+0.7	+0.3
% change year earlier	+7.9	+27.5	+8.4	+10.3	+9.6	+0.7	+3.3
Money Supply (3)							
Latest	A$251.0b(9) (Sept)	Rmb 3,322.66b (Jan-Mar)	HK$1,082.24b (Nov)	Rs 4.92t(9) (Nov)	Rps 168.54b (Nov)	¥521.62t (Oct)	M$155.86b (Sept)
% change previous month	+0.5	+10.5(10)	+2.2	+1.2	+1.9	Unchanged	+1.8
% change year earlier	+7.9	+29.2	+1.8	+13.6	+19.1	+2.4	+21.5

(1) Official and other estimates of GDP (GNP in China & Japan for fiscal year) (2) Consumer Price Index A (3) M2 or currency plus bank deposits (4) To March (5) IMF definition of reserves minus gold except for Singapor

Stockmarkets

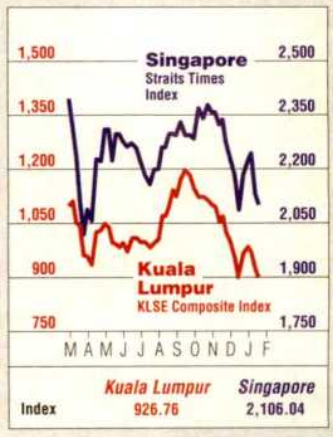
■ ■ ■ Earthquake triggers sell-off in Tokyo ■ ■ ■ Hong Kong rallies after emerging-markets scare ■ ■ ■ But most other Asian markets fail to bounce back: Singapore, Seoul, Bangkok and Manila slide in week ended on January 17 ■ ■ ■

Index	New York	Tokyo
	3,930.66	19,241.32

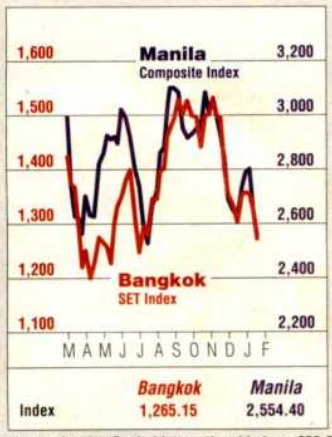


Index	Seoul	Taipei
	956.96	6,515.79

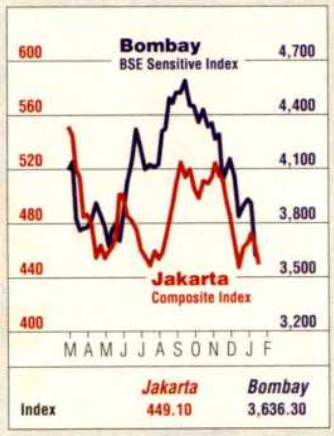
Index	Hong Kong	Shanghai
	7,606.51	587.93



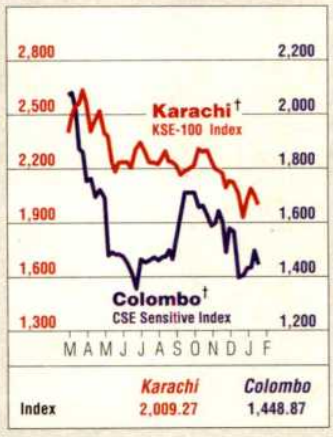
Index	Kuala Lumpur	Singapore
	926.76	2,106.04



Index	Bangkok	Manila
	1,265.15	2,554.40



Index	Jakarta	Bombay
	449.10	3,636.30



Index	Karachi	Colombo
	2,009.27	1,448.87

Index	Sydney	Wellington
	1,880.60	1,935.58

Morgan Stanley Capital International Index = 620.2 (Jan. 16)

Source: †Smith New Court (Far East Ltd.)

Philippines	Singapore	South Korea	Taiwan	Thailand
4.5 5.4	10.0 8.5	7.6 7.3	6.4 6.5	8.2 8.8
US$6.59b (Sept) US$4.13b	US$55.09b (Aug) US$45.47b	US$23.68b (Oct) US$19.96b	US$92.28b (Oct) US$84.16b	US$28.89b (Oct) US$24.72b
-US$2.14b (May-Jul) -US$1.78b -US$1.52b	-US$0.94b (Jun-Aug) -US$2.00b -US$2.99b	-US$1.61b (Aug-Oct) -US$1.20b +US$0.66b	+US$3.06b (Sept-Nov) +US$1.98b +US$2.42b	-US$2.24b (Aug-Oct) -US$2.46b -US$1.15b
US$3.42b +16.8 +21.0	US$25.81b +11.4 +38.0	US$24.84b +3.8 +16.8	US$25.83b +12.0 +20.3	US$11.51b +4.5 +15.2
US$5.56b +18.1 +27.9	US$26.75b +6.3 +23.3	US$26.44b +5.3 +28.4	US$22.77b +8.0 +19.5	US$13.75b +2.1 +23.3
1988=100 197.1 (Jul-Sept) +2.5 +9.2	Sept 87-Aug 88=100 120.0 (Jul-Sept) +1.0 +3.9	1990=100 130.8 (Sept-Nov) +0.3 +6.1	1991=100 114.4 (Aug-Oct) +2.3 +6.3	1986=100 144.2 (Aug-Oct) +1.9 +5.5
P487.67b(9) (Jul) +1.8 +28.7	S$88.33b (Aug) +1.2 +14.0	Won 123.51t (Sept) -0.1 +10.9	NT$11.28t (Oct) +1.9 +15.2	Baht 2,658.2b (Sept) +1.6 +13.1

(6) fob (7) cif (8) Including petroleum (9) M3 (10) % change over past 3 months (11) One month *Source*: Official statistics

Interest Rates (%)

Jan. 16	Prime lending	Interbank 1 month†	Interbank 3 months†	Interbank 6 months†
Australia	10.90	7.9375	8.4375	9.0625
Britain	6.25	6.125	6.50	7.00
Hong Kong	8.50	6.375	6.75	7.00
Indonesia	21.00	15.75	16.25	16.50
Japan	*4.90			
	**3.00	2.3125	2.375	2.4375
Malaysia	6.55	5.05	5.40	6.10
New Zealand	9.50	8.75	9.23	9.65
Philippines	14.50	10.00	9.1875	8.8125
Singapore	6.25	1.75	2.875	3.50
South Korea	††13.95	—	—	—
Taiwan	7.625	—	—	—
Thailand	11.75	9.50	10.00	—
U.S.	8.50	5.75	6.1875	6.625

*Long term **Short term ††Monetary Stabilisation Bond (1 year)
†Offered rate *Source*: Telerate and REVIEW Data

SHROFF

DHAKA

Fingers Crossed

Dhaka's stock exchange doesn't normally draw international attention, but this time it's raising eyebrows. The cause: Shinepukur Jute Spinners' announcement on December 25 that it aims to raise 2.5 billion taka ($62.5 million) through a rights issue that offers shareholders 125 new shares for every one they now own.

Shinepukur belongs to the Beximco Group, Bangladesh's highest-profile company, and the money will be used to finance an investment in the country's first Hyatt Regency hotel.

While $62 million isn't a whole lot elsewhere, it's a big event for the Dhaka exchange, whose entire capitalization is a modest $1 billion. It's also something of a test: The main index doubled last year, but recently has shown signs of faltering. Coming after other fund-raisings that were large by local standards, Shinepukur's may be a bit ambitious, some say.

Still, the promoters appear confident. Beximco's vice-chairman, Salman Rahman, said in an interview that he expects foreigners to take up $8-10 million of the issue.

Backers are no doubt encouraged by a series of recent offers that were well subscribed. In December, for instance, Square Pharmaceuticals made the year's biggest listing, raising 900 million taka. UBS Securities led the international tranche of the deal, which placed 80% of the shares with foreigners.

Despite enthusiasm for Bangladesh among the Hong Kong-based brokers who follow emerging markets, there are nagging worries about the Shinepukur issue. Brokers are still scrutinizing the deal, and caution that placing out any offer — particularly one of this size — could face problems because of concerns about liquidity in the Dhaka market, as well as the general weakness in equity markets worldwide.

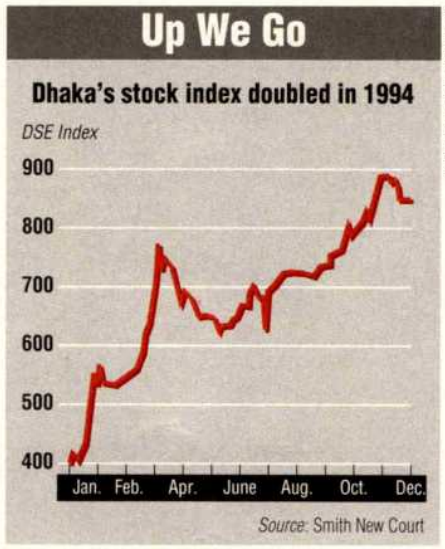
About 80% of Shinepukur's shares are with the family's privately held New Dhaka Industries. NDI, advertising in local newspapers, has offered to sell 50% of its rights to any interested investor — at a premium of 10 taka for each new share. If it is successful in bringing in another partner, the family would see its majority holding diluted to just over 40%.

The company is raising the cash to diversify into real estate and property development. It holds 40% of the issued shares of International Hotel Holdings (Hong Kong investors hold the rest), which is to build a $150 million, five-star hotel in Dhaka. IHH signed a management contract with Hyatt Regency on January 8.

Salman Rahman says IHH hopes to raise $120 million of its own through equity and debentures in the next six to 12 months to complete the project.

Shinepukur says the diversification would boost profits 27-fold by 1999, to 560 million taka, and roughly double earnings per share, to 22.23 taka. At the issue price (par value of 100 taka a share) this represents a price-earnings ratio of 8.07 in 1995 and 4.5 in 1999.

That would be a good advertisement for Bangladesh stocks. In addition to soaring prices, trading volume surged to a record last year. Stockmarket Vice-Chairman Imtiyaz Hussain forecasts volume will grow 50% this year and market capitalization could reach $1.5 billion.



■ S. Kamaluddin

KUALA LUMPUR

Fear of Flaying

In a seminar early last year, Zainun Ali, Malaysia's registrar of companies, fixed a grim and steely eye on her audience and began: "I'm here to talk about insider trading, which I'm sure a number of you here would know all about." The audience, mostly corporate bigwigs, tittered nervously.

The Malaysian insider trader, a prolific species by general consensus, should be even more nervous now. The Finance Ministry recently announced that proposals had been finalized to amend the Securities Industry Act. The proposals, strongly backed by Finance Minister Datuk Seri Anwar Ibrahim, aim to impose heavier penalties, including mandatory whipping, for offenses relating to the stockmarket. They still require approval from the cabinet and Parliament.

That people take liberties on the Kuala Lumpur Stock Exchange is without doubt. Stock prices have an uncanny tendency to leap prior to major announcements and an equally unnerving habit of receding after news of some lucrative contract is officially announced to the Exchange. Faceless "syndicates" are said to ramp up prices of a stock for no particular reason other than, perhaps, like Mt. Everest — it's there. It hooks Joe Investor: unfortunately, in most cases, he's buying when the syndicate's selling.

There have actually been arguments for these practices, although proponents generally sheath them in metaphorical bromides. Examples would include statements like "healthy speculation makes for exciting markets."

But times are changing. The Securities Commission, established in 1993, quickly got down to work. Shortly after it opened for business, seven people were convicted of short-selling Union Paper stock. The miscreants were mostly fined — one to the tune of M$1 million ($390,000). But the move was notable because it was the first time in 20 years that there had been a court decision on market manipulation.

Malaysians, though, have begun to question the fairness of a penal system that prescribed a four-year jail sentence and three strokes of the cane for an unemployed man convicted of stealing a M$250 bottle of perfume but gave a businessman convicted of siphoning M$1 million from a construction cooperative a one-day jail term and a M$100,000 fine.

The public debate sparked by such disparities in sentencing resulted in amendments to the Penal Code in 1993 that provided for mandatory jail terms, whipping and higher fines for convicted white-collar criminals. The code, though, does not apply to the securities field. Thus, the proposed amendments to the Securities Industry Act.

Even so, white-collar crooks can take some comfort in that they will not be caned as enthusiastically as their more criminally inclined brethren. Replying to such a question in Parliament recently, Law Minister Datuk Syed Hamid Albar said their caning "will be light, similar to the punishment carried out on juveniles."

■ S. Jayasankaran

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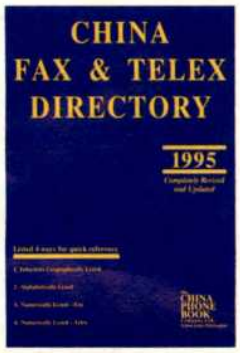

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SACHIKO SAKAMAKI

PROFILE

Tamayo Otsuki
Tokyo

Comic Relief

Japanese comedienne battles prejudice with humour

By Sachiko Sakamaki

The Japanese woman, clad in a pink kimono jacket and red high heels, stunned the Los Angeles comedy-club crowd. Stepping into the limelight, she launched into a repertory of dirty words — shattering forever the audience's image of the polite Japanese.

Since that exceptional debut in 1984, Tamayo, born Tamayo Otsuki near Osaka in 1959, has become famous and controversial. As a comedienne, she doesn't shy away from sensitive topics — such as race relations in the United States, or prejudice against Japan's "untouchables," the lower echelons of its former caste system.

"The Japanese love the black people. Do you know why?" she asked in 1986. "Because it is only the blacks that buy big radio-cassette recorders. They are too heavy for the Japanese. That's why Sony invented Walkman for them." This mischievous quip trumped derogatory remarks about American blacks and Hispanics by Japan's then prime minister, Yasuhiro Nakasone.

As a young woman, Tamayo dreamed of becoming a singing star. In 1981, she quit her job as an overseas tour guide in Osaka and headed to Los Angeles to study music. When she began running out of money, "without any hesitation," she left school to become a topless dancer.

But the would-be singer soon slipped onto the comic stage, instead. Clients at the strip theatre where she worked took her to a comedy club to perform during an amateur session. American comedians' acts took her by surprise. "They looked proud and smart," she recalls, "totally different from Japanese comedians."

Her performance was an instant success. She turned professional in 1985, and saw her nightly earnings climb from $25 to $5,000 in just five years. She has now performed widely on stage and TV, and is probably the most famous, and perhaps the only, Japanese professional comedienne in the U.S.; language and cultural barriers keep her countrymen from following in her shoes. "I don't think there will be a person surpassing me for at least 10 years," she says.

America's black comedians, such as Paul Mooney, have had an influence on Tamayo's approach. Like them, she wants to use comedy to overcome discrimination. That sets her apart from other Japanese comedians, who generally beg their audiences to "please laugh at poor me." American comedians instead rely on satire, directed at others as well as themselves, she notes.

The Buraku Liberation League, which battles prejudice, is among her biggest admirers. "Tamayo makes people laugh at the system of discrimination, by poking fun at both the discriminator and the discriminated," says Miyuki Tai of the league's Liberation Publishing House.

When Tamayo returned to Japan last year for the first time in 12 years, Tai asked her to lend her group a hand. Tamayo agreed to write a book. *Comedy + Love; Tamayo's Way of Overcoming Discrimination* hit bookstore shelves in October, selling 35,000 copies in its first month. Yet Tamayo is more of a pragmatist than an activist; she enjoys making money and living in her sprawling 1,000 square metre house in north Hollywood.

Tamayo is unique in Japanese comedy circles. Says one comedy watcher: "She has warmth towards people. Many trendy comedians nowadays are so mean, laughing at others by putting them down." Still, she doesn't plan to work in Japan; translating her jokes into Japanese would "discount" them, she says.

Ever since she was sent to a Catholic kindergarten, Tamayo has loved meeting people from other countries. "I spoke, 'Hello, my name is Tamayo' to about 100 foreigners at the World Exposition in Osaka when I was 11 years old," she recalls. Years later, upon leaving Quansai University in Osaka, she went to Britain to study English while working as a maid.

Using her own experience, she also published two English conversation books to help literal-minded Japanese communicate abroad. She starts out with lessons on how to express anger and other emotions using colloquial English phrases such as "Oh, boy" and "bummer."(In the film *Good Morning Vietnam*, actor Robin Williams, playing a radio DJ, uses a similar technique to teach English to Vietnamese; in fact, Williams practised the routine with Tamayo.)

Now that Tamayo has mastered the American comedy scene, she is fascinated by India's. "I feel that India has a mysterious laughter, different from the American one," she says while feeding her squirrel monkey, Mister. Besides studying humour in India, she plans to spend 1995 visiting Shanghai and performing in Amsterdam. Straightforward and honest, she is also infinitely provocative. Asked why she's bound for the Netherlands, she replies: "You can smoke grass there." ■

Sachiko Sakamaki is a REVIEW bureau assistant in Tokyo.

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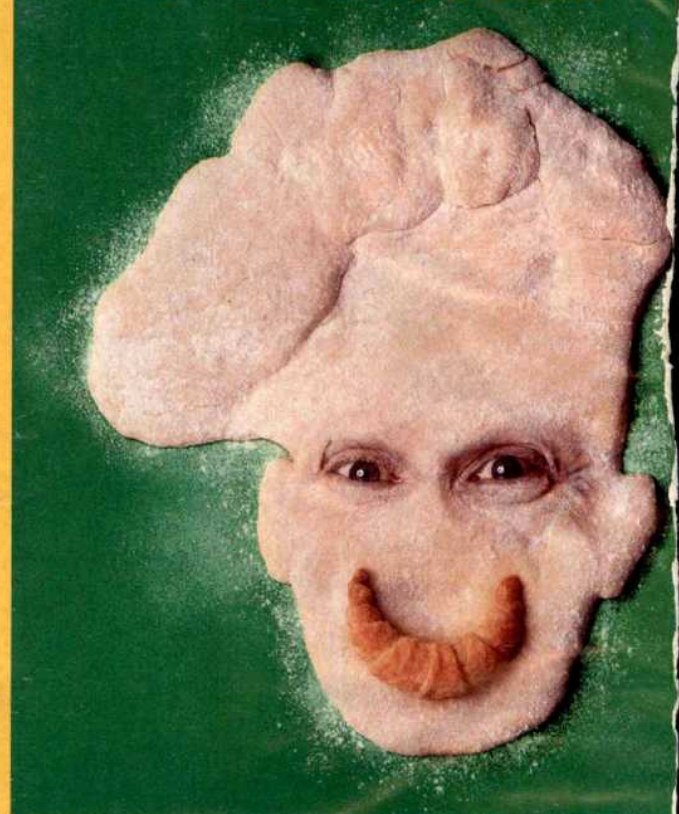

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Filling?

Precisely.

What else do you sell here?

Milk, sandwiches, coffee, pet food – here, have a doughnut.

Err, thanks. It's a great idea, when did you come with it?

I made it this morning... it is fresh.

No, not the doughnut, the bakery.

Oh, that was not my idea, you must talk to Hans Berlin, I am learning a lot from him.

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